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TARIFFS AND TRADE BARRIERS

A SERIES OF ADDRESSES AND PAPERS PRESENTED AT THE SEMI-ANNUAL
MEETING OF THE ACADEMY OF POLITICAL SCIENCE
APRIL 28, 1933

EDITED BY
PARKER THOMAS MOON

PUBLISHED BY
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CONTENTS

PREFACE

ON the eve of a World Monetary and Economic Conference and at a moment when almost universal attention is focused on trade barriers, tariffs, quotas, and exchange depreciation, the hope may be ventured that this volume will be not only a solid addition to economic knowledge, but an exceptionally timely approach to the problem of the hour. The reader will find in these pages important statements by the experts who represented the United States in the Preparatory Commission for the world conference and by other very distinguished authorities.

In substance this volume is the record of the Semi-Annual Meeting (Fifty-third Year) held by the Academy of Political Science on April 28, 1933, at the Hotel Astor in New York City. The papers presented at the meeting and printed here represent, of course, the views of their respective authors, and for the divergent opinions expressed by them the Academy can obviously assume no collective responsibility.

In this place it is appropriate to acknowledge the profound debt of gratitude due to the speakers who addressed the Semi-Annual Meeting and likewise to the Committee on Program and Arrangements. The members of the committee were: Mr. John W. Davis (Chairman), Miss Ethel Warner (Director), and Messrs. Winthrop W. Aldrich, Frank Altschul, William C. Breed, W. Randolph Burgess, Joseph P. Chamberlain, Frederic R. Coudert, Paul D. Cravath, Norman H. Davis, S. Parker Gilbert, George L. Harrison, Alanson B. Houghton, Pierre Jay, Thomas W. Lamont, Russell C. Leffingwell, Samuel McCune Lindsay, Robert M. MacIver, Roswell C. McCrea, George O. May, Ogden L. Mills, Parker T. Moon, Shepard Morgan, George A. Plimpton, William L. Ransom, Jackson E. Reynolds, E. R. A. Seligman, Albert Shaw, Alfred P. Sloan, Thomas J. Watson, Louis Wiley, and Owen D. Young.

PART I

TRADE BARRIERS IN THE WORLD DEPRESSION

INTRODUCTION [1]

W. RANDOLPH BURGESS
Trustee of the Academy of Political Science
Deputy Governor, Federal Reserve Bank of New York

THE significance of this meeting may be indicated in part by the fact that by truly prophetic insight our topics for discussion today are precisely upon one of the points which were emphasized in the joint statement by the President and the Prime Minister of England two days ago. You may have noticed the sentence in that statement: "Commercial policies have to be set in a new orientation. There should be a constructive effort to moderate the network of restrictions of all sorts by which commerce is at present hampered, such as excessive tariffs, quotas, exchange restrictions, and so forth."

Today's meetings, therefore, devote themselves to one phase of the matters which will be discussed at the World Economic Conference.

The first speaker this morning was one of two American delegates to the international committee arranging the agenda for the World Economic Conference. It gives me great pleasure to introduce Dr. John H. Williams, Professor of Economics, Harvard University, who will speak on "The United States Tariff and Our International Financial Position." Professor Williams!

[1] Introductory remarks at the First Session of the Semi-Annual Meeting.

THE UNITED STATES TARIFF AND OUR INTERNATIONAL FINANCIAL POSITION

JOHN H. WILLIAMS

Nathaniel Ropes Professor of Political Economy, Harvard University; U. S. Representative on the Preparatory Commission of Experts for the World Monetary and Economic Conference

THE world situation prior to the depression was characterized by two opposing tendencies, both carried to unprecedented extremes: on the one hand, a growing network of international financial relations and an enormous burden of international governmental and private debt, and on the other, a progressive increase in tariffs and quota arrangements. The first looks logically toward a freer movement of goods, the second endeavors to prevent such a movement. Though no simple or single explanation of the depression is possible, this conflict of international forces lies close to the heart of the problem.

The intensification of trade barriers had its origin in the war. In part it is traceable to that sheer exuberance of nationalism which war intensifies; in part to the need for revenue, which was greatly increased by the war; in part to the creation by the Versailles Treaty of new states, which proceeded at once to exercise their new-found sovereignty by raising tariffs against each other and everybody else.

More important, perhaps, has been the increased industrialization of the younger countries. Cut off from imports of certain goods from the warring nations, they proceeded to develop new industries at home, textiles in India, China, and Japan, iron and steel products in India and Australia, shoes, textiles, and other products in Brazil. With the aid of American capital and branch factories, Canada has experienced a rapid industrialization. To this development must be added the war-time expansion of productive capacity in countries already industrialized, particularly the United States. The new growth of tariffs has been in part an attempt to protect these new or expanded industries.

Another prolific breeder of tariffs has been depreciation of currencies. The war caused a collapse of the gold standard in Europe, and the depreciation of currencies after the war, together with the abandonment of exchange stabilization measures, produced a wave of protectionist sentiment all over the world. England responded with the key industries act, and the United States with its emergency tariff of 1921. We have witnessed this same relation between currency and tariffs in the present depression.

Perhaps more important than any of these causes of trade restrictions has been the condition of agriculture. The war reduced the European output of agricultural production by drawing off the population from the soil. This curtailment, together with war-time expansion of demand for raw materials, provided an opportunity to other countries to increase their output. For a time, in response to the shortages, there was some downward movement of agricultural tariffs in some European countries. But as European output was restored after the war, non-European output did not contract; and the rapid technical improvements in the industry further expanded total output.

The effects were intensified by the peculiarly inflexible demand-supply conditions to which agriculture is subject. As foreign markets are reduced by trade restrictions and prices fall, it is difficult for countries not possessing diversified industries to turn to something else. They endeavor to make up in quantity what they lose in price, and to push upon markets still comparatively open what is denied admission to previous markets. Such action invites further trade restrictions; and increasing quantity reduces prices further; but with inelastic demand the increased quantity sells for a lesser total sum. The pressure to increase exports is intensified by financial requirements. Such countries are usually borrowers of capital, and their seeming prosperity in the earlier part of the period, together with that in the lending countries—our own in particular — greatly increased the capital inflow. But as output continued to expand and the gap in European output disappeared the conditions were reversed, though international leaders were slow to perceive the change. The spread of the protectionist movement, the attempts to sustain prices by con-

trol schemes applied to many individual commodities, the appearance of Russia in the world's markets in 1928, our own stock-market boom, serving as a magnet for the world's short-term funds, the cessation of the flow of capital to the young countries, bringing upon their balance-of-payments position and their prices the full weight of the interest charges—all these factors assisted in converting the slow fall of agricultural prices, which had been in process since 1925, into an abrupt collapse. The collapse has produced a further intensification of trade restrictions, and created a great disparity of prices—amounting to as much as $1.00 a bushel for wheat—between different markets.

Our special interest today is in our own policy. We have raised our tariff three times since the war — the Emergency Tariff of 1921, the Fordney-McCumber Act of 1922 and the Hawley-Smoot Act of 1930—and we have taken this action under entirely new international conditions. The war abruptly changed our position from the world's leading debtor to one of the two leading creditors. War-time exports of twenty-two billion dollars and imports of eleven billion dollars gave us an export surplus equal to the sum of our export surpluses in the preceding forty years. The partial payment by a billion dollars of gold was the first phase of the heavy gold flow to this country since 1914; but the principal means of payment consisted of the repurchase of our securities previously held abroad, and the extensions of credit by our government — the inter-allied debts. To these sums must be added the post-war exportation of private capital, which has made us the world's creditor, on private capital account alone, by an amount in excess of ten billion dollars.

It has been frequently pointed out, especially by European economists, that there is a logical conflict between a high protective tariff and an international creditor position; and our policy has been contrasted with that of England before the war. A nation whose international position calls for the receipt of interest payments on balance injures both herself and her debtors by interfering with the receipt of such payments in the form of goods. By her free-trade policy England received payment in foods and raw materials at low cost, and by offering to receive them freely she expanded her own market

for finished goods abroad. The policy was enormously beneficial to England and to her debtors. In contrast we, it is pointed out, have imposed an increasingly high barrier against goods; refusing to take goods, we have compelled payment in gold, on which there was no tariff, and by this process have at length smashed the monetary system, producing a world collapse.

This is a serious indictment. The correctness of the reasoning and the emphasis to be assigned to it in any analysis of causes of the present situation raise difficult questions. In the first place, whatever the merits, some account must be taken of the sheer rapidity of change in our own position and of the perhaps inevitable effect of such world-wide maladjustments as have occurred since 1914. Our protectionist policy has been a part of a world-wide movement. The change in England's position occurred gradually in the first half of the nineteenth century and was accompanied at all times by lively discussions about the tariff. Gradually England receded from her protectionist position and came out at the end of the half-century a creditor and a free trade nation. We have been called upon with great suddenness to unlearn one philosophy and to learn a new one.

In the second place, we have not at any time since the war been a creditor nation in the pre-war English sense of being required to receive an import surplus. Part of the reason is to be found in the dominance of capital items in our balance of payments year by year. Whatever the income account may have been, we have in fact exported capital on balance. This condition has continued even during the depression, taking the form mainly of withdrawals of short-term balances from our market. In consequence, there has been no direct and immediate pressure upon foreign nations to ship us goods on balance, for under these conditions the foreign exchange for interest and other payments due us is supplied, not out of the sale of a surplus of goods to our market, but out of our own capital exportation. German borrowing from us in the period prior to 1928 and its relation to her own reparation payments provide a familiar illustration. The problem is further complicated by the fact that even if we put on one side all the capital items in the balance of payments and look only at the

income items, there is no clear indication of a creditor position. Tourist expenditures abroad and immigrant remittances roughly balance incoming payments on account of interest, and in most years have shown an excess of outgoing payment.

Besides the incorrect appeal to the facts of our own case, the emphasis placed by the critics upon the trade-balance position seems to me to be exaggerated. Whatever the balance position may be, a high tariff undoubtedly interferes, item by item, with the ability of foreign nations to make interest and other payments in the form of goods and does divert payment into other media, including gold. There is, moreover, a relation between our protectionist policy and our capital exports. Much capital, for example, has gone to Canada, and there the connection is very clear. When we impose a tariff on Canadian goods we do one of two things: either we create a price-cost differential in favor of our country relative to Canadian prices and costs, or we induce a retaliatory increase in Canadian duties. In either case, there is a good reason for capital to move from our market to the Canadian market. Interference with the free movement of goods invites an alternative movement of the factors of production. The same point can be made, though with perhaps less force, with respect to our tourist expenditures. In so far as our tariff alters the terms of trade in our favor and renders more difficult the inflow of goods, the fall in foreign prices and costs relative to our level makes our money incomes go farther in a foreign country than at home. I would not push these points too far; what they suggest is that our tariff by affecting the terms of commodity trade has had also an influence on other items in the balance of payments, so that we are not in a position to know what our total balance would look like without a high protective tariff.

Perhaps the actual rates of duty, extreme though they are in many instances, are less objectionable than the principle on which they purport to be based. In 1922 we announced the cost-equalization principle. It sounds highly scientific; it is, actually, absurd. This principle says that in so far as foreign costs are lower than our costs, we are entitled to a duty to make up the difference. If rigorously applied it would work as follows: after the imposition of a duty our prices would tend to rise relative to foreign prices; as foreign prices and

costs fell a point would be reached at which particular imports could again occur; but such an occurrence would call logically for a further investigation of costs and a further increase of duty. In so far as it is applied, the principle amounts to saying that we do not believe in the receipt of goods from foreign countries.

The Tariff Act of 1930, in which we reaffirmed this principle, was super-imposed on duties already high. Begun as a means of increasing protection to agriculture, it developed characteristically into an all-round increase. The chief significance of the duties on agricultural products was not in their direct effects upon trade, since we are still mainly an agricultural exporting rather than an importing nation, but in the opportunity afforded to experiment, with unfortunate results, with the price mechanism in our own market. The industrial duties, since they were already in many instances prohibitive, probably had less direct effect upon trade than upon sentiment. Our action was enormously discouraging to the world and created a wave of animosity against us. Coupled with the act of 1922 it profoundly reinforced Europe's conviction that the American high-protectionist policy is a root cause of the world's difficulties. Personally, I have felt that this view contains much exaggeration and that the world would probably have had a very similar experience in the post-war period taken as a whole had all other factors operated as they did and the American tariff position remained unchanged after 1913. I have also felt that European tariffs and other trade restrictions have hurt Europe more than our tariff, because the European countries trade primarily with each other. But these are, after all, nice distinctions. It seems clear enough that our policy has been unsound in principle, extreme in degree, and bad in effect.

The situation that immediately confronts us is one of great emergency. The fall of world prices, particularly of agricultural prices, has greatly intensified an already unbalanced international situation and forced each nation to resort to defensive measures to protect its internal economy, which action has forced other nations to take like recourse. The accompanying condition of panic, leading to sudden withdrawals of short-term balances from the leading markets, has from time to time and particularly in 1931 greatly intensified the dis-

turbance and led to a new wave of trade restrictions. The result is a tangled network of defensive measures, which may be classified under four main types: (1) depreciation of currency, involving departure from the gold standard; (2) control of foreign exchanges, permitting a purely nominal adherence to the gold standard at a par of exchange maintained by means of restrictions upon the outflow of payment; (3) direct restrictions upon international trade by prohibitions, quotas, contingents, clearance agreements, licenses and similar devices; (4) indirect restrictions on trade by tariff rates.

It is important to recognize that these defensive measures, while differentiated in form, are essentially one in origin, purpose, and effect. It is also important to recognize that they are not in the main the result of deliberate voluntary action. But the general effect is that of destructive economic warfare resulting in a progressive strangulation of international trade, which in turn reacts disastrously upon domestic trade and employment. The total value of world trade is one-third of that in 1929 and the physical volume has fallen by at least 25 per cent, by far the largest decline on record. Meanwhile, stocks of a number of raw products are double those of 1925; world unemployment is estimated as at least thirty millions, exclusive of dependents; and national incomes have fallen by more than 40 per cent.

Under conditions like these it does not behoove us to enter into the refinements of commercial policy, theories of free trade versus theories of protection; they do not apply. What is required is a world solution for a world collapse. In the nature of the case remedial action cannot be undertaken by any one nation without supporting and compensating action on the part of others; to quote the language of the World Conference agenda, what is required is "a broad solution by concerted action along the whole front." The time has come to find out how much common sense there is in the world.

REMARKS BY THE CHAIRMAN

CHAIRMAN BURGESS: The discussion will be continued by Professor James W. Angell, of Columbia University, who has often addressed this audience before. He will speak on "Exchange Depreciation, Foreign Trade and National Welfare." I have pleasure in introducing Professor Angell!

EXCHANGE DEPRECIATION, FOREIGN TRADE AND NATIONAL WELFARE

JAMES W. ANGELL
Professor of Economics, Columbia University

WITHIN the last few weeks, the question of foreign exchange depreciation has taken on a new and vital significance for the people of this country. From 1879 until March 4 last, with the sole exception of the period of the World War, we were on the gold standard, and our exchanges were stable. The government bought and sold gold in return for currency at a fixed price, without limit on quantity, and the import and export of gold were entirely unrestricted. From time to time, other countries suffered from depreciation of their currencies in terms of the foreign exchanges, but not we. Other countries might abandon the gold standard, undergo the inconveniences and losses usually entailed, and then painfully clamber back to a stable base. We viewed their gyrations with some sympathy, more irritation, and perhaps a measure of satisfaction at our own superior arrangements. But what was involved was always a fluctuation of the foreign currency, not of our own. Our own currency, in terms of the standard measure, gold, remained stable.

Now the picture has become radically altered. Since March 4, 1933, and especially since April 19, American currency has become unstable in terms of gold. Gold exports are forbidden, gold is in fact not obtainable for internal use, and the principal foreign exchanges have moved substantially against us. For the first time in over five decades, except for the war period, we are viewing exchange depreciation from the other side. We ourselves are now one of the depreciated countries. The question of what happens to a country when its foreign exchanges depreciate, of what we may expect next, has suddenly become a matter of intense national concern.

THE GENERAL THEORY OF EXCHANGE DEPRECIATION

The general theory of the effects of a moderate depreciation of the foreign exchanges, so far as these effects can be separated from other contemporary phenomena, is familiar. At first, the depreciation gives a bounty to the exportation of commodities, since the same price as before, in terms of the foreign currency, now provides a larger yield than before in terms of the domestic currency. Other things equal, the current physical volume of exportation therefore increases. On the other hand, for analogous but opposite reasons, the physical volume of importation decreases; the depreciation operates like a general ad valorem tariff. But these changes are not permanent. A number of factors, usually substantially the same as the ones which caused the exchange depreciation to take place, are likely to produce a rise in prices and costs of production within the depreciated country. This rise reduces both the bounty on exports and the penalty against imports. If the original exchange depreciation was of only moderate severity, and if the exchanges are now held approximately stable at some new lower level, most classes of internal prices and costs will catch up with the exchange depreciation fairly promptly. The greatest part of the export bounty and the import penalty will then disappear. The country retains a permanent advantage in foreign trade only to the extent that certain kinds of internal costs of production, such as long-term interest and rent charges, and to a less extent various tax charges, are fixed in terms of money and fail to rise. A marked appreciation of the foreign exchanges, on the other hand, is supposed to set in motion substantially the opposite chain of events. But in both cases the uncertainties involved, the marked though usually temporary shifts in the channels of foreign and domestic trade, and the frequently enduring changes in the distribution of real wealth and income, are likely to leave the country less well off than before—to leave it with a smaller rather than a larger total of goods and services to consume. There is little in the deductions of general reasoning to warrant the expectation that inflation, for example, can permanently increase the real welfare of a country; on the contrary, real welfare is extremely likely to be diminished.

This general theory of the effects of moderate foreign ex-

change depreciation was borne out with substantial consistency by the actual history of the depreciated-exchange countries before 1914, and by the course of events immediately after the war. Analysis of the flood of post-war depreciations is of course complicated by the numerous other disturbing factors which were at work. Moreover, in a number of cases the depreciation passed rapidly to such extreme forms that internal economic activity came almost to a standstill; such was the result in Germany. To these latter types of situation, rather different considerations must be applied. In the main, however, the facts were in substantial conformity with the theory just outlined.

A second great wave of moderate depreciation in terms of gold began a year and a half ago, when Great Britain went off the gold standard. A dozen countries followed her example almost at once, and a number of others took stimilar steps somewhat later. The magnitude and scope of what has happened is without precedent in the world's peace-time history; it has been no less than a revolution. Among the large countries, until March 4 only the United States and France had remained on the unrestricted gold standard, though Germany and Italy had kept their exchanges stable; and now the United States has joined the group of depreciated countries. Hardly half a dozen nations of importance are today either on the full gold standard, or even on an exchange base which is stable in terms of gold. An appraisal of the actual effects of these recent depreciations on the depreciated-exchange countries themselves is therefore worth attempting, for the light it casts on what we may ourselves expect.

EFFECTS OF THE RECENT DEPRECIATIONS

The effects of the foreign exchange depreciations which have taken place within the last nineteen months are difficult to isolate and judge correctly. This is true for two principal reasons. In the first place, the depreciations developed in the midst of the steadily deepening depression of world business activity, which began in 1929; in large measure, they were of course themselves the product of this depression. In consequence, nearly all of the phenomena at issue must be measured in terms of a shrinking base. The question to be answered becomes, in most cases, not that of determining what increases

or decreases took place as the result of exchange depreciation, but of determining whether the actual decreases would have been greater or less, had there been no depreciation. In the second place, when the depreciations began to develop on a substantial scale nearly every country in the world, whether its own exchanges were stable or not, began to take direct or indirect measures to restrict imports from the depreciated countries. To the extent that these measures were actually effective, the temporarily stimulating effect of exchange depreciation on the exports of the latter countries was of course nullified.

Despite these difficulties, however, a survey of the accessible general data enables certain conclusions to be drawn with a reasonable degree of confidence. Broadly stated, these conclusions are that, first, the appearance of exchange depreciation in terms of gold did not bring about a substantial revival of general business activity in any of the depreciated countries; but second, however, the appearance of exchange depreciation actually was associated with a decrease in the current rate of decline of business activity in some of these countries, and with a cessation of the decline in others; and, third, the countries which retained stable foreign exchanges suffered, as a group, substantially more rapid declines in business activity than those countries whose exchanges depreciated.

To interpret these conclusions correctly, it is necessary to elaborate them somewhat, and to indicate the factual basis on which they rest. In the first place, the period of the depreciations now in question has as yet been short, and the depreciations themselves moderate. Most of the depreciations from which the conclusions are derived date only from September, 1931, or later, and complete data on them are not yet available after December, 1932. The period which can be examined hence covers only fifteen months or less. Among thirteen major countries in this group, for which reasonably extensive information is available, the (unweighted) average foreign exchange rate in December, 1932, stood at 69.4 per cent of the gold par, with a range for the group between a low of 42 and a high of 91. To date, the scale of the depreciations in terms of gold has thus kept within fairly moderate bounds.[1]

[1] The countries selected are Denmark, England, Norway, Sweden, British

In the second place, the adjustments of internal prices and costs which theory leads one to expect in the depreciated countries had gotten well under way by the end of the period, but had not yet had time for full development. In the ten principal countries retaining stable currencies, the average wholesale price level for 1932 stood at 89 per cent of 1931, and the average cost of living index at 93.[1] But for eleven of the depreciated countries, for which recent price data are available, the average wholesale price level in 1932 stood at 103 per cent of 1931, the cost of living index at 98.[2] This virtual constancy in absolute terms, appearing at a time when the countries with stable currencies were undergoing substantial price declines, can evidently be regarded as a relative *increase*.[3] Had the average price index for these depreciated countries risen in full proportion to the average exchange depreciation, however, with prices in the stable countries taken as the base, it would have reached 128.[4] The adjustment of internal prices to the new exchange levels, which usually appears in due course, was hence only about a third completed

India, Argentina, Canada, Chile, China, Japan, Mexico, Peru, Spain. The exchanges of Brazil were held stable after July, 1932; this country is hence not included. If we omit Chile and Japan, which in December 1932 had exchange rates standing at 49 and 42 per cent of par respectively, the average for the eleven remaining countries in this group rises to 74; and the lowest figure rises to 61. These last two countries are in a sense "unrepresentative" of the bulk of the present depreciations, since they have been undergoing marked internal inflations; and Japan has in addition been engaged in extensive military activity abroad.

The factual information used here and in subsequent paragraphs is taken from the League of Nations, *Monthly Bulletin of Statistics*.

[1] The ten stable countries selected are Austria, Belgium, Czechoslovakia, France, Germany, Holland, Italy, Poland, Switzerland, the United States.

[2] Price data for Argentina and Mexico are incomplete. Omitting Chile and Japan, the averages for 1932 both stood at 97 per cent of 1931.

[3] This is a substantial part of the explanation of why England underwent no large change in prices after quitting the gold standard. Another part of the explanation, not inconsistent with this but standing on different ground, is stressed by various English students: namely, that England went back to gold in 1925 at too high an exchange parity, so that her prices were subsequently "too low"; the depreciation in 1931 merely adjusted her exchanges to her prices. It should also be observed that the quantity of English currency and bank deposits has remained remarkably stable.

[4] Omitting Chile and Japan, 122.

by the end of 1932. We should therefore expect to find the effects on foreign trade and production which theory attributes to the first main phase of foreign exchange depreciation, still in actual operation during this period; and such is actually the fact.

In the third place, the depreciated countries came out decidedly better in foreign trade, during this first phase, than did the stable countries, and curiously enough came out better in imports as well as exports. To secure a broad base and to eliminate seasonal influences, I have compared the foreign trade figures in 1932 with the average of 1929 and 1931 taken as 100, using the same ten stable currency countries and the same thirteen depreciated countries as before.[1] In terms of money volume of trade, the (unweighted) average imports of

[1] The summary figures for foreign trade in the two classes of countries, showing the trade in 1932 as a per cent of 1929, of 1931, and of the average of 1929 and 1931, are as follows; figures in parentheses indicate number of countries available for each sample.

		Values		Weights	
		Stable (10)	Unstable (13)	Stable (7)	Unstable (4)
1932 imports as per cent of	1929	42	50	72	62
	1931	69	77	82	89
	Average.	56	64	77	75
1932 exports as per cent of	1929	40	51	66	78
	1931	60	85	78	93
	Average.	50	68	72	85
Unweighted average for total trade		53	66	75	80

The percent which the recorded relative levels of exports for 1932, measured against the average of 1929 and 1931, formed of the similar levels of imports, were for these countries as follows.

	Stable	Unstable
By value	89	106
By weight	93	113

the stable countries fell in 1932 to 56 per cent of the base figure, the imports of the depreciated countries to only 64 per cent. The exports of the stable countries, on the other hand, fell to 50 per cent of the base, the exports of the depreciated countries to only 68 per cent. Thus the decline was less in both categories for the depreciated countries; and whereas in the stable countries exports declined more than imports, in the depreciated countries exports declined *less* than imports. The available figures based on weights, which because of price declines show a smaller decrease than the money volume figures, reveal precisely the same relations. The differential advantage to exportation, which theory anticipates in the first main phase of exchange depreciation, thus developed in actuality for a large group of depreciated countries.[1]

The data on physical production and on employment, so far as they go, tell a similar story. The (unweighted) average index of industrial production for eight stable countries in 1932, compared with the average of 1929 and 1931 taken as a base, declined by 32 per cent; the average for five depreciated countries fell only 11 per cent, and in the case of one of these countries actually rose a little.[2] Here again the first main phase of exchange depreciation was thus associated, if not with an actual revival of general business activity in the depreciated countries, at least with a much less rapid decline than in the stable countries. This too can evidently be described as a relative increase.

[1] Reference should be made here to the recent study by the U. S. Tariff Commission, entitled *Depreciated Exchange* (3 Parts: 1932), undertaken in response to Senate Resolution No. 156 (72d Congress, 1st Session). Also see the summary of this study in the *Annual Report* of the Tariff Commission for 1932, pp. 59-61. Concerning itself only with the effects of depreciation abroad on the foreign trade of the United States, covering only the period from October, 1931 to March, 1932, and using a nearby and narrow base for purposes of comparison, the Commission found little difference between foreign stable and depreciated countries, with respect to the recent changes in our own foreign trade.

Also see W. O. Scroggs, "Depreciated Currencies and World Trade" (*Foreign Affairs*, April 1933).

[2] The countries for which current indices of industrial production were available are as follows. Stable countries: Austria, Belgium, Czechoslovakia, France, Germany, Hungary, Poland, United States. Unstable countries: Canada, Chile, England, Japan, Sweden. The index for Japan, measured on the indicated basis, stood at 101 for 1932.

The general course of events in the past year and a half has thus been comparatively favorable to the depreciated countries —or, to be more accurate, has been less unfavorable to them than to the countries with stable exchanges. Prices in the depreciated countries, with one or two exceptions, have remained nearly constant instead of falling; foreign trade and industrial production have declined less sharply than in the stable countries; and exports have declined less than imports. But it would clearly be quite erroneous to conclude from these facts alone, without further qualification, that exchange depreciation is a desirable thing in itself. The period covered to date embraces only the first main phase of depreciation, which is also the phase that is superficially most advantageous to the depreciating country. In the great majority of the countries considered, very little change has as yet taken place in prices or other internal costs, and in most of them there has as yet been little expansion of currency and credit—little internal "inflation". If their internal prices begin to rise, as they very well may, the foreign trade advantage which these countries now enjoy in dealing with the stable countries will dwindle and disappear [1]—unless they then depreciate their exchanges still further; and in that direction, as is all too familiar, lie only irreparable loss and disaster. Moreover, it is evident that even this temporary advantage which they now have is dependent on the maintenance of exchange stability, or at least of a lesser degree of depreciation, in foreign countries. Exchange depreciation is a purely relative phenomenon, not an absolute condition. If all countries were to "depreciate" their currencies equally in terms of the foreign exchanges there would be no actual exchange depreciation at all, and no foreign trade advantage.

Finally, the advantages which the countries with depreciated exchanges obtain are not, in a manner of speaking, absolute advantages, but are obtained dollar for dollar at the expense of the stable countries. The situation which stimulates the exports of the first group restricts *pari passu* the exports of the second group; and conversely for imports. In the last year and a half, the serious distortion of foreign trade channels and

[1] The same effect would be produced if prices in the stable countries *fell* to an equivalent extent.

the intensification of international competition, which widespread exchange depreciation has produced, have been a major factor in deepening the world depression itself. Until the present evils of fluctuating exchanges are ended, no general recovery of world trade can take place.

Taking the situation in the aggregate, it can safely be concluded that the countries which have allowed their exchanges to depreciate in terms of gold, in the last fifteen months, are not better off as a whole than they were before; in real terms, they are rather worse off. Their position seems relatively better now than that of the stable-exchange countries only because in the latter countries, for reasons having in the main rather little to do with the maintenance of the gold standard as such, the volume of business activity has been declining with even greater speed. To date, the depreciated countries have benefited from a relative expansion—to be accurate, from a less rapid contraction—of their export trade. They have also benefited, insofar as they are debtors on balance to foreign countries, from the fact that going off the gold standard has prevented the process of paying their foreign obligations from forcing further internal contractions of currency and credit. But these are in the nature of the case only temporary advantages. Meanwhile the depreciated countries are paying more than before for their imports; it is costing them more than before, in terms of goods and human effort, to meet their current obligations abroad; and insofar as their prices are rising, they are helping the profit-receiver within their borders at the expense of the creditor, the wage-earner and the salaried man.

THE PRESENT POSITION OF THE UNITED STATES

We come now to the position of the United States. Until March 4, the United States was on the stable-currency side of the situation, and suffered all the marked if presumably temporary disadvantages which attend that status. Our exports to the depreciated countries were seriously hampered, and our own manufacturers complained bitterly of the unnatural advantage which foreigners had acquired here—an advantage which not even our own remarkable tariff could wholly offset. The fact was overlooked that some of the imports which were most objected to came from countries with stable exchanges; and that the country as a whole was getting its imports sub-

stantially more cheaply than before. Now, however, we are on the other side of the same situation, and have ourselves become a country with depreciated foreign exchanges. What will happen, both to our foreign trade and to our economic position as a whole?

What will happen depends in largest part on what we ourselves do. Our recent abandonment of the gold standard was in many ways a phenomenon without parallel in economic history, and one whose wisdom many have questioned. Despite the world depression, we are still a country with a substantial excess of commodity exports over imports, with a substantial current income from foreign investments, and with no large obligations currently coming due abroad. The panic which compelled the closing of all banks for over a week in March also compelled a suspension of gold payments and gold exports, but the panic soon disappeared. When we abandoned the gold standard, we still had very large excess gold reserves; our discount rates were at comparatively low levels; the federal budget was being brought nearer equilibrium than in years; and there was no unmistakable evidence of any unmanageable pressure against our foreign exchanges. On the contrary, much reputable opinion holds that removal of the remaining restrictions on gold exports would have automatically dissipated such pressures as actually existed. Yet in the face of this basically favorable situation, we went off the gold standard, and went off without a struggle. The action is without precedent. Why was it taken? The authorities responsible appear to have felt that exchange depreciation abroad was exerting a depressing influence on the American price level, and desired to offset this influence. To some extent, the diagnosis was undoubtedly correct. But in the very nature of the case, as remarked before, this depressing influence could only be temporary in character; indeed, it had already begun to abate as the depreciated countries adjusted themselves to their new position. Nor can it easily be shown that the way to compensate for exchange depreciation abroad is to depreciate your own exchanges. It is rarely true, even in finance, that two wrongs make a right.

At least for the present, however, that water is over the dam. The abandonment of gold, while bitterly attacked in some

quarters, has been enthusiastically applauded in others, and in any event the step cannot be retraced quickly. It has already produced certain marked effects. Our exchange rates on leading foreign centers have depreciated by amounts which still vary from day to day, but which have run up as high as 15 per cent. This means that American exports are cheaper in terms of foreign currencies than before, and as a consequence certain export industries have already received increased orders from abroad. On the other hand, of course, our imports are costing us more than before,—such things as silk, rubber, paper, pulp, sugar, coffee, tin—and that can hardly be regarded as a national advantage. At home, the markets for securities and basic commodities have swung violently upward, in anticipation of measures of internal inflation which have not yet materialized; and on the same ground, there has been some increase in the real activity of business. It should be observed that these are of course the favorable initial effects which usually accompany the first main phase of an exchange depreciation.

If internal inflation does not in fact take place, however, and if prices do not increase substantially for other reasons, then the sole major effect of the abandonment of gold on our foreign trade will be to stimulate our exports somewhat, and to penalize imports. This really means that we shall then be giving a somewhat larger quantity of exports than before per unit of imports, and hence, though most of us will not realize it, that the terms of our foreign trade are really moving against us. But that situation is likely to prove temporary; if nothing else happens, our exchanges are likely to return to something like their former levels. If our internal prices do rise, on the other hand, then to that extent the effect of the exchange depreciation will be nullified. But in the present situation, any rapid rise in general prices is likely to come about only through deliberately inflationary measures undertaken by the federal government. Inflation may in fact be the only path out of the present depression, for us, but it is a path which I view with the gravest misgivings. Past experience, including our own, gives little ground for confidence in the success of inflationary measures, even when operated by the most astute politicians; and gives little ground for hope that, by so-called "control,"

it can be kept within predetermined limits. The usual course of inflation is first a substantial initial stimulus, such as we are now beginning to experience; then a period of disorganization and loss; and then either a painful struggle back to a stable currency base, or a tragic plunge into that vortex of rising prices and increasing quantities of money, which eventually destroys the currency itself. If there were any guarantee that inflation in any form would really revive business activity more than momentarily, and would bring back lasting prosperity, I would be the first to support it. As far as past history and general reasoning afford a guide, however, just the opposite is the case. Inflation, as a cure for business depression, simply does not work; at the end, it leaves the country only with a huge balance of net loss and suffering.

With such an outcome almost surely ascertainable in advance, it seems to me merely irrational to embark on that course of action. We have yet to explore the effects of reciprocal tariff reductions, of other forms of international coöperation, and of many sorts of internal adjustments which are now in process. Instead, we are helping to force the world and ourselves back to where we were in 1919; and the odds in our favor are rather smaller now than they were then.

The hope I see in the situation is the hope that quasi-dictatorial powers over currency and credit will be given to the Administration,[1] thus choking off the more irresponsible of the projects now before Congress; that the Administration will then make little or no actual use of these powers, unless for individual relief purposes; and that through patience, the working out of innumerable adjustments now taking place, and adherence to sane counsels, a way out of the present morass will be found. Shot-in-the-arm schemes are almost certain, in the long run, to do more harm that good; we cannot, by overnight magic, transport ourselves into the millennium.

REMARKS BY THE CHAIRMAN

CHAIRMAN BURGESS: Our next topic is "Import Quotas and Other Factors in the Restriction of Trade." The speaker will be Mr. G. R. Parker, of William B. Nichols and Company, New York. Mr. Parker is former President of the American Exporters' and Importers' Association. Mr. Parker!

[1] Effected by the Act signed May 12, 1933.

IMPORT QUOTAS AND OTHER FACTORS IN THE RESTRICTION OF TRADE

G. R. PARKER

Of William B. Nichols and Company, New York

Former President, American Exporters' and Importers' Association

IF it were true that words are given us to conceal our thoughts, it might be added that statistics are given us to obscure our objectives. I know of no more dreary way of attempting to prove a point than to approach it through the medium of massed tabulations and comparative figures. In the very simple and elementary remarks I have to make on a very broad and involved subject, it is my purpose to avoid any such procedure in coming to a timely conclusion.

The primary reason why the subject of international trade restrictions is so complex is that individual and universal welfare appear to be in conflict. Groups of people do what they know to be wrong in principle, but believe will benefit them. One is somehow reminded of the anecdote about the members of the congregation which gave a barrel of wine to the minister. As each received the cask to supply his portion, each poured in a pitcher of water, thinking that so slight a dilution would scarcely be discovered. The minister, who for the purpose of this allegory may be assumed to typify universal welfare, can scarcely be said to have profited. Yet each individual believed himself better off.

World society is today organized into a number of political units, the boundaries of which have been fixed by the accidents of history, rather than by economic or even wholly ethnological considerations. To quote Mr. H. G. Wells, a nation is a group of people, " which is either afflicted by or wishes to be afflicted by a foreign office of its own, in order that it should behave collectively as if it alone constituted humanity ".

Now each nation, because it feels that it must foster its own industry, or protect its currency, or rectify its trade balance, and so on, has proceeded to place varying restrictions on its trade, principally on its imports, that is on the exports of other countries. The result of this widespread economic nationalism

is that merchandise is denied its natural market, or forced to artificial price levels. Goods cease to pay for other goods. Ships carry partial cargoes or rust at their docks. As a practical illustration let us trace the course of American foreign trade. In 1929 total American exports and imports amounted to $80 per capita; in 1930 to $58; in 1931 to $37; and in 1932 to $24. The rate so far this year is still lower. Putting it another way, the head of a family of five did business with foreigners in the amount of $400 in 1929, and $120 in 1931—a decline of about 70 per cent. To cite a single example of how this bears on domestic trade, let us recall that ordinarily out of every two bales of cotton grown in this country, one is sold to foreigners. And the manufacturers, the mail order houses, and others trying to sell goods in the South have a very vital interest in the bale which should be going abroad.

In places like China, we have the all too frequent spectacle of famine in one part of the country, while abundant harvests are being garnered in another. Here the explanation is simple. There is no adequate transportation system. And it seems to me that one of the major causes of the present world depression is in a broad sense much the same. The distribution system has broken down. Goods have been prevented from moving freely.

The progress of human civilization has been concurrent with the growth of trade. In the animal kingdom there is no trade. Each adult animal supplies its own wants. Savage society is much the same. It is when men begin to exchange the product of their labor that we note progress. It is still possible for the individual to get along with very little trading, but the result is a primitive peasant class, with little living margin over bare sustenance, and closely bound to the soil. Modern society, slowly evolving through the ages, has been developed by individual production in excess of individual needs, and trading the resulting surplus for the similar surplus of others. When trading ceases depression ensues.

There are of course intermediate stages. Thus if the producer is compelled to trade only with his immediate neighbors, there are definite limits to the surplus he can dispose of. As his trading horizon broadens, his capacity for the exchange of goods increases. In a word, his own purchasing power is greater, and his standard of living higher. It is therefore

almost self-evident that the greatest prosperity for the individual is achieved through the widest possible markets for the product of his labor.

In the face of this axiom it would seem logical in a period of world depression to seek a remedy through widening, rather than narrowing the avenues of trade. As far back as 1927, when there was as yet no hint of coming disaster, the World Economic Conference in Geneva declared:

> The experience of the years since the war proves that import and export prohibitions, and the arbitrary practices and disguised discriminations which result therefrom, together with the obstacles of all kinds placed on the circulation of goods and capital, have had deplorable results by hampering the normal play of competition, by imperilling both the essential supplies of some nations and the not less indispensable markets of others, and by bringing about an artificial organization of production, distribution, and consumption.
>
> Experience has shown, moreover, that the grave drawbacks of these measures have not been counterbalanced by the financial advantages or social benefits which were anticipated.
>
> It is therefore important for the recovery and future development of world trade that the governments should forthwith abandon an economic policy which is injurious to the interests both of their own and other nations.

Let us see now what has happened in the very recent past. According to the United States Department of Commerce, during 1932 trade barriers were introduced or increased by no less than sixty-five commercially important countries without taking into account those restrictions incident to exchange control. In Europe general tariff increases occurred, ranging from the Netherlands increase of duties by three-tenths, to the Esthonian imposition of a 15 per cent tax on all payments made abroad, in addition to its regular tariffs. In South America similar increases of import duties occurred, or what amounts to the same thing, larger percentages were imposed as consular fees.

Apart from tariffs, the effort to limit the decline in currency valuation in terms of gold or of foreign currencies has impelled many countries in Europe, Latin America and Asia to adopt some system of artificial exchange control. The effect is to discourage imports since it becomes difficult, in varying degree, for the importer to secure funds with which to effect payment. With the exception of Belgium, Finland, France, Lithuania, the

Netherlands, Poland and Switzerland, all European countries had by the end of 1932 put into effect a greater or less degree of exchange regulation. Apart from France, with its devaluated currency, nearly every commercially important country has now actually or practically abandoned the gold standard.

Finally and in addition to tariff and exchange barriers, the past year has witnessed widespread increase in the limitation of imports, through the adoption or extension of the quota system, and what is closely related, the regulation of importations through license requirements.

The quota is a wholly arbitrary device whereby the government declares that purchases of certain articles from abroad shall not exceed a fixed number or quantity. The total is then allotted in varying proportions to the producing countries. The license system provides that the importer shall be compelled to obtain formal consent, from some government agency, before bringing the particular goods into the country.

With the possible exception of the British Empire, which has so far not widely adopted it, the quota system is now to be found throughout Europe and other parts of the world. Its viciousness resides primarily in the opportunity provided for unfair and discriminatory practices. Quotas are of necessity arbitrary both as regards other countries as a whole, and as to the industries within these countries. For example, France establishes an import quota on radio receiving sets. Under this a certain quantity is allotted, let us say, to the United States. But it then remains for some body such as the American Chamber of Commerce in France to divide this quota among various American manufacturers. The probability of dissatisfaction and grievance is apparent. Obviously there is no scientific method of establishing a universally fair system. It is common to base a quota on past performance, as for instance the average imports of the article from a given country for the three preceding years. Clearly the effect is to perpetuate results of past conditions which may have meanwhile undergone radical change.

To visualize how this operates, let us assume that Latvia and Finland have been exporting mouse traps to Bulgaria. The latter decides to establish a quota on mouse traps based on a three-year average. The record shows that Latvia's exports for the preceding year, and for the two previous years were at

the rate of 2, 4 and 6 respectively per annum, or a total of 12 for the three years. The corresponding record for Finland was 5, 3, and 1, or a total of 9. Now evidently Latvia's three year average is 4, and Finland's 3. The quotas are now fixed in this ratio. As a result Latvia is allowed to bring in 33⅓ per cent more than is Finland. Yet an examination of the figures shows at a glance that prior to the quota, Latvia's product was on the decline, while Finland's was increasing. In the competitive race for the Bulgarian mouse-trap market, Finland was in process of passing Latvia. Its product presumably had become cheaper, or better, or both. Yet Latvia with apparently declining efficiency and lower capacity to compete, is allowed the greater share of the business.

Having passed this inequality, how can any body representing the exporting country make any pretense of an equitable distribution of the quota among its own producers? The same problems have to be met in an equally unscientific manner.

The opportunities for real or alleged favoritism and discrimination are evident. National, racial and personal likes and dislikes can scarcely fail to jeopardize any semblance of unbiased determination.

Let us now examine for a moment the distressing picture as a whole. In the years since the war, and with rising crescendo in the immediate past, national governments throughout the world have set up barrier after barrier and restriction after restriction. Feverish nationalism, retaliatory action against others, and mistaken efforts to create islands of prosperity in an ocean of depression, have been the motivating factors.

At the same time and with the same purpose attempts have been made to distort the normal course of trade through sentimental propaganda, exemplified by such movements as "British Goods are Best" or "Buy American". One can scarcely be accused of specious casuistry in pursuing this to its absurd conclusion. Why not with equal logic "Buy New England"? Then "Buy Connecticut" and finally "Buy Danbury". Then the Danburyites may wallow in the prosperity engendered by a plethora of hats. Why allow Michigan-built automobiles to compete with local industry in Ohio? And should not patriotic Detroiters not only buy and use their own motor cars, but preferably drive them on their bare rims rather than import rubber tires made by Akron labor?

The end and goal of all these trade-restricting policies is clearly visible. It is the continual narrowing of trading areas, the reduction of the possible market for the products of labor, and resulting lower individual purchasing power and living standards. Theoretically at least, if logically carried through, it would mean a return of mankind to its earliest state, in which small groups, the family or the tribe, consumed what they produced. In such a society a surplus over consumption requirements is of no value, since it cannot be exchanged. It is in fact what in our more advanced civilization we choose to call overproduction. We must go back some hundreds, if not thousands of years to find the world's people eking out so bare and cheerless an existence. Yet it is precisely along this retrogressive road that the political and economic isolationists would drive us.

Happily there have been evidences here and there of an awakened national intelligence. The Stresa Conference of last year reached an agreement as to mutual preferences on agricultural products among the countries of the Danube basin. The Oslo Economic Convention, to which the Scandinavian countries, Belgium and the Netherlands are parties, provides against upward tariff revision. And the later agreement between the Netherlands and Belgium initiated positive tariff reductions. These and other isolated measures, relatively minor, and confined to limited areas, are nevertheless encouraging. If a system is good for a group of European states, if it is good for a group of North American states, it may one day dawn on the public consciousness that an integration of such systems might be logical. It is not too much to hope that the forthcoming International Economic Conference may be a step in this direction.

Remarks by the Chairman

Chairman Burgess: We turn now to another much discussed phase of the tariff problem, "The Relation of the Agricultural Problem to Tariffs." Senator Dickinson of Iowa was scheduled to present this paper; he is otherwise occupied today in the pressing business of the Senate. He sent word that he greatly regrets his inability to be present. He has sent his paper and it will be read by Professor Parker T. Moon, of Columbia, the Secretary of the Academy of Political Science. Professor Moon!

THE RELATION OF THE AGRICULTURAL PROBLEM TO TARIFFS

HON L. J. DICKINSON
United States Senator from Iowa

THE Association of Land-Grant Colleges and Universities in November 1932 reported that

> the difficulties in which the world finds itself are related to (1) the monetary, credit, and trade policies followed during and after the World War, (2) the over-expansion of production and productive capacity in many industries, with an accompanying increase in the volume of indebtedness, (3) the unparalleled orgy of speculation in securities, (4) the trend toward economic self-sufficiency, especially among European nations. This trend resulted in considerable degree from obligations to pay war debts and reparations, and from efforts to escape the effects of falling prices and was manifested in trade barriers and import restrictions that retarded international trade and curtailed the foreign demand for products of this country.

The trend above noted was not directed in retaliation but was a program for self-preservation by our foreign neighbors. It is natural, when conditions are on the down-grade, for every nation to do whatever is possible to preserve its own interests, and that is the program that has been followed by the nations of the world since the close of the World War.

Nations naturally follow the disposition of the individuals. When the individual found that his income was being curtailed, he immediately retrenched. His house was left unpainted; his old automobile was driven another year; his old shoes were resoled. Every principal retrenchment curtailed his trade with his associates and his neighbors. Governments did exactly the same thing. It was not retaliation; it was self-preservation.

Many people are inclined to insist that the falling off of our world trade is due entirely to the tariff policies of our own country. In discussing the collapse of international trade, many contend that tariffs have destroyed such trade, and that it cannot be revived until these restrictions are removed. But Wallace B. Donham states:

In my opinion the collapse of international trade results mainly from serious over-production of raw materials, stimulated by competition among the industrial nations and followed by the sharp fall of commodity prices. This over-production and price collapse is the primary fact and trade restrictions are mainly a result.

The fact that the foreign trade of all countries has declined in about the same percentage as the general economic condition is convincing that tariff is not the cause. Free-trade countries have had a percentage decline similar to that suffered by protective countries.

Apparently, from the statement of Secretary Hull, we are to embark upon a new international policy. It is the theory that by lowering the American tariff and by negotiating reciprocal tariff agreements with other countries, we shall be able to increase our imports and expand our exports. If this can be done, it is of material interest to the farming population of the United States. It should be remembered that our main exports are wheat and cotton and pork products in the agricultural group, and automobiles, machinery, oil in the industrial group. In accepting an international policy of this kind we depart from the traditions of previous years that have served our country well.

Let me further suggest that 65 per cent of all of our imports are duty-free; that the list of articles on the free list includes practically all of the products not produced within our own border lines. Certainly coffee, tea, silk, rubber, etc., are non-competitive products. Foreign interests are at liberty to ship them here and exchange them at will.

It is, therefore, proper to ask on what items shall the tariff be reduced? Can we give a list upon which, with safety to home interests, a drastic reduction in the tariff rate can be made? No such list has been prepared or can be prepared. Every time we lower the tariff and allow the importation of a foreign product that can be produced in this country, we are depreciating the value of the capital investment engaged in the production of that product and putting American workmen out of employment.

Secretary Hull makes the suggestion that "a long list of American commodities could be profitably exchanged for foreign commodities that the United States does not produce

or produces in insufficient quantity, or produces in a manner not economically justifiable". Our industries here are in a position to produce every product for which the raw material is found within our boundaries. We have the labor available. What is to be gained by turning this trade to our foreign neighbors?

For this reason, the theory that we can expand our export trade, and that foreign debts can be paid thereby, is lacking in specification. Contributors to this view are among two classes of people: first, the economist or internationalist who believes that all trade barriers should be removed; second, those organizations, such as the automobile, farm machinery and tire concerns, that have reached the conclusion that they are in position to compete in the markets of the world. In contradiction to the first view, all of the countries of the world for the last fifteen years have adopted the reverse course. With reference to the ambition of the large corporations, it seems clear that this was largely due to the extreme expansion in the production of these commodities following the war and is not a practical program in ordinary times under keen competition.

Wallace B. Donham further states:

> We must not delude ourselves. The only way we can maintain and increase our present exports is by increasing imports of manufactured goods which will in the main directly compete with established home industries. Shall we gain by shifting social groups now surrounding these industries into other areas and other industries whose exports may grow? Even with our relatively mobile labor such a policy will add social strains which may well overwhelm us.

But it is said that if the farmer produces a surplus of farm products, he must depend upon a world market for the surplus portion of his crop. This is true, and because of this perplexing phase of our farm marketing system, effort has been made for the past ten years to segregate the domestic consumption from the export portion of the farmers' crop.

The interest of the farmer in tariff can be best illustrated by the fact that all of the farm bills that have been proposed in Congress in the past fifteen years base their relief upon the protective tariff system. This is true of the debenture plan, the equalization fee plan, the allotment plan, and the plan now pending before Congress. On April 18, 1933, during the dis-

cussion of this legislation, Senator Smith, of South Carolina, stated: "Unfortunately, the principle of the high protective tariff is in this very farm bill raised to the n^{th} power, reaching to where it is an embargo, and yet we call ourselves Democrats." Also Senator Bailey, of North Carolina, on the same day, in talking upon the farm bill said:

> We Democrats commit ourselves in this bill to a prohibitive tariff policy, being a party pledged against the existing tariff system. I have heard of paradoxes in my life, but that is the chief. In the very hour when we propose it, we see in every paper that comes forth the statement that the Secretary of State of the United States, and the President himself, are making overtures to the other nations with a view of readjusting the tariffs. We here build a wall to heaven in one moment and invite them to cut it down in the next. If that policy is sound, then we, in the enactment of this measure, are destroying that very policy.

The old slogans were: "Make the tariff effective on farm products" and "Give the farmers the benefit of the domestic market". The best interest of the farm population is, therefore, directed in three courses: First, a reduction of farm products until the surplus in excess of domestic consumption is not great. Second, a continuation of the protective tariff schedules on farm products to prevent imports from foreign countries from directly competing with our farm products in the domestic market (this will prevent low-cost production from interfering with our domestic trade). Third, the maintenance of a high industrial schedule in order that the American workman may retain his position as against the foreign workman working long hours and for low wages.

The present Administration has pointed out the desirability of reducing tariff duties on goods the farmer buys in order that foreign nations might trade goods of this type for farm products. In such a proposal consideration must be given to the question of how, if these goods that the farmer is to buy are to be imported, will the labor now employed in the production of these goods find other employment. On the other hand, if the farmer is to be deprived of the market for his farm produce that is consumed by the American workmen, and must run the chance of selling his farm produce in competition with other farm produce in foreign markets, the chances are that he will lose rather than gain. A European

workman may eat wheat produced in Russia, Australia or Argentina, but if the American workman is employed in an American factory, the chances are that he will consume American food products.

Kenneth W. Stillman, in *The Protectionist,* says:

> To illustrate the action of bargaining tariffs, let us look at the automobile and cotton industries. Let us suppose we bargained with England to reduce its automobile tariff in consideration of a reduction in our tariff on cotton goods. The sale of English cotton goods would increase, and the Lancashire factories would expand operations and would require more help. But in the United States cotton prices would fall and many cotton producers would be forced out of business. Meanwhile the increased sale of American automobiles in England would have expanded operations in Detroit and more workers would be needed. Theoretically, the jobless cotton workers would be transferred to the automobile industry.

Who knows that the jobless cotton workers would be transferred to the automotive industry, either theoretically or actually? What probably would happen is that the English cotton operative would make a great deal more money and might be able to buy an automobile, but that automobile would, in all likelihood, be turned out by an English concern or one of the American plants in England. Both the cotton worker and the automobile mechanic would run great risk in the exchange. And while the owners of the motor industry might make more dollars, the cotton industry would be torn to pieces and suffer severe deflation.

On April 11, 1933, the *Washington Post,* in editorial comment upon the present Administration's tariff policy, stated:

> If the United States is going to embark upon such an experiment, it ought not to do so blindly. It may be difficult for the average man to understand what advantages Americans as a whole would gain from a scheme which would close the American market to domestic output. Secretary Hull's theory of the world as a great economic unit is a myth. The world is no more an economic unit than it is a political unit. Wages in Japan, for example, are about one-sixth to one-tenth of what they are in the United States. Under present conditions a scaling down of tariff barriers would put Japan in the most advantageous economic position of any nation in the world. Unemployment would increase in the United States. Manufacturing would be transferred to countries paying cheap wages.

What barriers are we to remove? When Canada was first settled and developed, her wheat fields began to threaten ours. Then Argentina entered the lists and competed with our farmers on the world market with wheat, corn, meat and wool. Soon it became evident that we were no longer looked upon by the world as the only place where food could be produced in surplus quantities. Therefore, every agricultural schedule reduced puts our farmers in direct competition with cheap lands and low-paid labor in South America and Canada. If barriers are to be removed on the industrial schedules, may we ask what business is now making excessive profits or paying excessive wages? Every dollar you give to a foreign laborer must be taken away from an American workman.

What kinds of goods do foreign nations want to trade or sell us? Not all industrial commodities surely! There are few industrial nations, but many agricultural nations. What do you suppose Argentina wants to exchange with us? Not manufactured articles—she manufactures nothing. She wants to give us agricultural products. So also do Australia, Canada, Cuba, China, Mexico, Russia, India and a host of other agricultural countries. Do not let us be deceived on that score.

The kind of commodities foreign nations want to sell or "trade" with us is a matter of public record. The records are open for your inspection. Foreign nations have a right under our tariff law to protest against any rate in the 1930 Tariff Act, and the Tariff Commission must investigate the protested rate. What do you think was protested—iron, steel, sewing machines, automobiles or any other industrial product? No! Not one protest about industrial products. Every protest was on agricultural rates. Mexico complained about the tariff on live stock, milk and cream; Argentina against wheat, cattle, hides, wool, sheep, flaxseed and casein; China against dried eggs; Cuba against beans, okra, pineapples and other vegetables; France against cheese, mushrooms, and so on.

More than 80 per cent of all protests filed by foreign governments against the protective tariff have been against duties on agricultural commodities. These foreign agricultural nations want our market. Because of our higher standard of living, the American market is equal to or better than the combined markets of the world, and in the economic drive against this

country, the attack has been centered on agriculture. The fight has been bitter and forceful, and I am sorry to have to admit that it has been helped and abetted by certain groups of American financiers who seek to collect some of their bad loans by this method. But to you and to ninety-nine per cent of the industrial East, the loss of the American farmer's market spells plain disaster and ultimate ruin. For by the very act of tampering with, breaking down, or "trading" with the farm tariff, we would automatically destroy the buying power of more than 75 per cent of our population, and get in return for that great loss the dubious trade of foreign peasant farmers and underpaid labor who do not buy automobiles, radios, electricity, or any of the other luxuries which are common to the American farm home.

It is agreed that there is a farm problem. We know it cannot be solved by putting the American farmer in direct competition with the foreign farmer. The American farmer pays taxes, buys industrial goods, and in every way contributes to the general welfare of the state and nation. The foreign farmer pays no taxes to help maintain our institutions, nor does he buy our industrial goods.

A protective tariff is the very foundation of farm relief. We cannot stand a foreign invasion of our markets without a violent reduction in the purchasing power of our farmers, now so cruelly reduced because of the world's financial difficulties.

We are passing through strange days and experiencing radical changes in the sub-structure of our national life. Changes are being made in our money values. How these changes will affect us in the future, no man can foretell. An agreement on world fiscal policies must come first. The present negotiations now going on in Washington may go to the heart of the fiscal problem. World agreement on currency is possible because finances know no boundary lines. Economic boundary lines have been recognized in tariffs since the beginning. Following an agreement on money, we can then feel our way into the economic field.

A sacrifice of our tariff schedules in our present plight would discourage everyone. With a world over-producing in every line, wth workmen unemployed in every country, our problem is to find a way by which we can go forward. We cannot turn

our jobs over to foreign workmen. We cannot put our farms in direct competition with foreign farms. We must maintain the protection now afforded our agricultural interests if we expect to get back to the solid foundation of national security and happiness.

Remarks by the Chairman

Chairman Burgess: We now have half an hour for discussion. The discussion will be opened by George P. Auld, former Accountant General of the Reparations Commission, 1920-1924, and a partner in the accounting firm of Haskins and Sells.

DISCUSSION: TRADE BARRIERS IN THE WORLD DEPRESSION [1]

GEORGE P. AULD

Of Haskins and Sells;
Formerly Accountant General of the Reparations
Commission, 1920-1924

PRIOR to the historic event that occurred on April 19, 1933, the problem of the restoration of international trade appeared sufficiently formidable. In fact, it seemed for the time being insoluble. What effects the definite suspension of the gold standard by the United States has had on that complex of interrelated dislocations one may hesitate, at this short interval and amid the critical diplomatic conversations now going on, to attempt to specify. It seems likely, however, that the shock of that event will be found to have provided a solvent of some potency, under the influence of which things that have had a highly indurated appearance will be rendered more manageable.

Most or all of us are convinced that international trade is a good thing. The contrary thesis, which has received some thoughtful and a great deal of thoughtless support in this country, is that the home market for domestic products must be developed, and their export discouraged. The advantage claimed for a conscious policy of this sort is the attainment of a more complete national integration. Its adoption would imply the progressive curtailment of imports, and its results, the world over, would be, in fact, identical with the system of barriers which during the past two years have been piled up, more or less fortuitously, across all the pathways of trade.

Our view here doubtless is that the more complete domestic integration aimed at by a policy of economic nationalism could not be worth the distress caused by the attendant dislocations in our export industries. Only some future benefit of an importance so commanding and a certainty so clear as is rarely to be foreseen in this world, could justify or make bearable such disastrous dislocations as we and our neighbors are now with difficulty enduring.

More than that, and referring specifically to the situation of this country, we have the matter of our normal and natural export surplus to consider. After suffering the elimination of our export trade in amounts equal to the barred-out imports, what disposition would we make of the normal remaining balance—our normal excess of ex-

ports? We must sell that excess on the world market or face the creation of a permanent class of unemployed at home. But can any nation dedicated to the unneighborly, not to say uneconomic, policy of blockading imports expect to secure or to keep foreign customers? Perhaps least of all nations, with the exception of Britain, can we hope to serve the real interest of our producers by a policy of economic nationalism.

Now, the present blockades, with the possible exception of our own most recent tariff legislation, are not in the main expressions of conscious policies of economic nationalism. Import embargoes are clearly traceable, in most cases, to acute currency difficulties precipitated by the international panic of 1931. And being merely effects and not causes, it might be thought futile to try to deal with them at all. That is, of course, a mistake. For, of the many hundreds of millions of dollars of trade that have been cancelled out, exports against imports, as a result of the panicky embargoes of the past two years, it is obvious that by mutual agreement a substantial proportion could be reinstated on both sides of the international accounts, without affecting the exchange values of the currencies concerned. Here, then, the opportunity clearly exists for the nations to bring a little common sense into the conduct of international affairs. Here, plainly, is a chance for their representatives to discuss with each other, like ordinary rational human beings, conditions which are easily susceptible of correction by negotiation.

Such a reinstatement, by common consent, of self-balancing currents of trade has, however, definitely restricted possibilities of usefulness, except as to the general restoration of confidence that it should promote. Its limitations arise from the fact that on final balance of all international movements of commodities and services, every country is either an importing debtor or an exporting creditor. That final balance has to be moved, not in the main against gold shipments, as is the popular impression, but by international lending. And these movements of capital, if they are to be properly organized and free from the grave dangers associated with floating debt, must be in the form of long-term lending, which is now practically non-existent.

The resumption of international long-term lending, then, is basic to full recovery, and it presents a problem of extreme difficulty. It is this country, as the great exporting creditor of the world, that must do a major part of that lending in order to move its own surplus. This is a painful and highly unpopular idea these days. But there is no doubt at all that neither we nor our neighbors can get very far on the way toward international economic stability and prosperity until we begin again to lend abroad. The difficulty, of

course, is to find those proper objects of international lending which can today command the confidence of our investors.

A second major limiting factor on efforts to reach international stability by negotiation lies in the apparently fundamentally weakened position of British industry. During the whole period of growth of the modern system, Britain has been the central fact in world trade. Since the war she has not been holding her own, and her struggles to maintain her position exercise a profoundly disturbing effect on world economic conditions. Having to buy her food abroad, she is vitally dependent on the export of her manufactures, but whereas in 1913 she had over 15 per cent of the world export trade, her share progressively declined to about 12 per cent in 1930, representing the very substantial shrinkage of one-fifth of her original share, a shrinkage which was in effect somewhat more than a fifth when account is taken of a small increase in her proportion of total world imports.

At present Britain, and consequently to an extent the rest of the world, is dominated by a school which believes that monetary manipulation is the great economic panacea. On this theory one need not be greatly concerned directly with the fundamental mechanism of society, which is industry and production, but may count on salvation through monetary management, and in particular, so far as present international aspects are concerned, through the massing and maneuvering of gold stocks in and out of the foreign exchange markets.

The real position of sterling is today obscured by these maneuvers and by transfers of funds reflecting speculation and fears of repudiation of the dollar. The underlying position of sterling, in my view, is dubious. It has for long been the leading currency of international trade. Its preëminence and that of British finance generally were founded on the former preëminence of British industry. No currency can, in the long run, be maintained artificially or in any other way than on the foundation of a vigorous and healthy system of production. It is, therefore, reasonable to suppose, if the decline of British industry continues, that the whole system of international exchanges built up through the centuries around sterling will be subject to continued or recurrent strains incident to its gradual reconstitution.

On the other hand, if we were to witness a thoroughgoing reconditioning of British industry, which, according to a leading British exponent of rationalization, would require a capital expenditure running into many millions of pounds, sterling and the international exchanges could be expected to regain and maintain a natural stability. And if this reconditioning were to be effected in part by Ameri-

can capital, the problem of finding a proper object for American lending would be solved. For British credit meets all the necessary tests.

As to the world-wide bases of international credit, which urgently require regeneration before international lending generally can be resumed, it is hardly susceptible of denial that they may best be repaired by the political and moral appeasement which would flow from a settlement of the problem of intergovernmental debts and from some measure of success in present efforts to deal with the problem of disarmament.

PART II

PROCEDURE IN TARIFF MAKING

INTRODUCTION [1]

SHEPARD MORGAN
Vice-President, Chase National Bank;
Former Finance Director, Office for Reparation Payments, Berlin

THE topic for discussion this afternoon is "Procedure in Tariff Making." The Academy of Political Science tackles, as a rule, only one problem at a time. Considering the state of the world and of the United States at this moment, it is fortunate, I think, that we are not attempting to deal with monetary stabilization, price stabilization or kindred topics, or we might continue our conference for weeks, months, perhaps even years. We are, however, dealing with a topic which is next door to the question of currency stabilization, the solution of the problem of intercourse between nations.

This afternoon, we deal with the technical phases of that topic. We are to discuss procedure in tariff making. We are fortunate in having three distinguished speakers who can deal with this subject from standpoints of authority. I desire to announce thus early that the fourth speaker, Sir Vincent Massey, who was former Minister from Canada to the United States, will not be with us. He told us this morning, to our great regret, that in his judgment the conversations now pending between Prime Minister Bennett and President Roosevelt were of such a nature that he felt it wiser for him to make no expressions of opinion during their pendency.

The first speaker on the afternoon program is John Lee Coulter, Commissioner of the United States Tariff Commis-

[1] Introductory remarks at the Second Session of the Semi-Annual Meeting.

sion. Mr. Coulter is a Westerner. He comes from a part of the United States which has a preponderant interest in export, rather a small interest in import. That in itself makes the comments that we will hear from Mr. Coulter this afternoon of great interest. In addition, we have the assurance that we will learn the results of his service on the United States Tariff Commission. Mr. Coulter!

THE TARIFF COMMISSION AND THE FLEXIBLE CLAUSE

JOHN LEE COULTER
Commissioner, United States Tariff Commission

ASIDE from its duties in connection with "unfair competition and unfair acts in the importation and sale of articles of commerce" and in connection with "discriminations by foreign nations against the trade and commerce of the United States", the most important duties of the Tariff Commission are prescribed by Sections 332 and 336 of the Tariff Act of 1930, which carry forward similar functions from the Act of 1922. Section 332 requires the Commission to be in constant touch with all tariff problems pertaining to all commodities in international commerce and the tariff policies and acts of all nations, so as to be able on a moment's notice to serve the President and the Congress. Section 336 is the so-called "Flexible Clause" of the Tariff Act, which I have been invited to discuss as a part of your program dealing with "Procedure in Tariff-Making".

Perhaps I should make clear at the outset that under this section the Tariff Commission is distinctly not a policy-making body. Under our government, the determination of public policy is a matter of general legislation participated in by the President and the Congress, and may not be delegated to a board or commission. In 1922, the party in power, in the light of the complete change in the international commodity price structure during the war and the partial deflation between 1920 and 1922, not knowing what further changes might take place, which would throw individual tariff rates out of line from the general policy of protection which it had established, and wishing to provide machinery for the review of individual rates of duty, classifications, etc., deemed it wise to add to the duties of the Commission the quasi-judicial or scientific task of reviewing individual rates of duty (upon request of the President, either House of Congress or committees

thereof, representatives of domestic or foreign industries affected, or upon its own motion), to determine whether the rates prescribed in the Act approximately carried into force and effect the policy intended by the Act. The Commission was commanded to report its findings in each case to the President, who was authorized to put the findings into effect by proclamation provided they fell within certain limits as to changes in rates of duty, reclassification of articles, or changes in value basis for the assessment of ad valorem rates.

Three major problems presented themselves: (i) The limitations as to the scope of the Commission's duties; (ii) The measuring stick to be used by the Commission; and, (iii) The method of putting the findings of the Commission into effect. I shall deal briefly with each of these in the order named.

I. LIMITATIONS AS TO THE SCOPE OF THE COMMISSION'S DUTIES

The Commission was not permitted to transfer articles from the dutiable to the free list, or vice versa; nor was it permitted to change the form of duty—for example, a rate of duty from specific to ad valorem, or the reverse; further, it was not authorized to specify maximum or minimum ad valorem limits in cases of specific duties, or to specify maximum or minimum specific limits in cases of ad valorem rates. Maximum changes in rates were limited to increases or decreases of 50 per cent from the rates provided in the Act itself, except that in certain cases where ad valorem rates were provided the value basis upon which the rate was applied might be changed from foreign invoice value to American selling price, provided, however, in such cases the rate itself could not be increased if the value basis was changed. Authority also was given to reclassify dutiable items either by subdivision of basket clauses, price groups, or more definite description of articles.

II. THE MEASURING STICK TO BE USED BY THE COMMISSION

The Tariff Acts of 1922 and 1930 more definitely than heretofore set forth the basis for rates of duty imposed. The

basis defined or described was the difference in costs of production in the United States and the principal competing country of like or similar articles laid down in the principal market or markets of the United States. The measuring stick was made much more definite in the 1930 Act. This sounds like a very simple and a very practical measuring device until it is analyzed. It will then be recognized as very practical and simple in some cases, but a very difficult rule to apply in many cases and not at all applicable in others. In addition to cost differences the Commission was charged with the duty of evaluating other advantages or disadvantages in competition. Supplementing the research work carried on by the Commission in each case, provision was made for a public hearing at which interested parties were given an opportunity to appear, present evidence and be heard.

During the ten years 1923-1932 inclusive, the Commission had cases where no basis had yet been worked out by economists, statisticians, accountants, or other experts for ascertaining costs of production. Thus, in the investigation pertaining to hides and skins, it was possible to measure the quantity of domestic and foreign production, international trade, supply and demand, prices paid, etc., but not costs of production. Who could tell whether it cost more or less per pound to produce the hide on the animal's back than the different classes of flesh or the bones or other parts of the carcass? At one moment, or in one country, the price of the hide might be higher than other parts of the carcass, or again, it might be lower. Also there are scores of grades and conditions of hides. The cost-of-production measuring stick just would not work. From this extreme we ran the gamut to investigations where the measuring stick worked perfectly. So far as I know, nobody has yet made a study of the thousands of different grades, sizes, values, etc., of the different items or articles listed in the Tariff Act, or broken down basket clauses and attempted to classify all as to whether cost difference is a practical or impractical basis for measuring the competitive impact. It should be said, however, that in a great many of the investigations conducted by the Commission a working basis for obtaining costs of production was developed.

Another important problem which confronted the Commis-

sion was that of finding like or similar domestic and foreign articles in direct competition. While there were, of course, great numbers of staple or standard articles such as wheat and flour, butter, milk, cream, etc., which were like or similar except for minor differences in grade, etc., there were also great numbers of cases where domestic production would be largely in one price group, or one grade or class of the product, and imports in another. In the case of ad valorem rates of duty, the duties imposed often are not burdensome on the low-priced group, but practically prohibitive on the high-priced group; while in the case of specific rates of duty they are often not burdensome on the high-priced group, but practically prohibitive on the low-priced group. Where there is no domestic production of the class or grade or price group imported, or no imports of the class, grade or price group produced in this country, a problem presents itself, which has not yet been successfully solved, although some approach has been made to the problem in a number of cases. In some important cases, however, the Commission did not find a practical basis for a definition by grades, classes, or price groups, and while it found the rates of duty either excessively high or extremely low as to portions of the commodity, it was unable to provide a remedy under the flexible provisions of the law.

While the law requires the Commission to compare domestic costs with costs of the commodity produced in the principal competing country, it sometimes happens that one country sends us more in quantity of one grade or class, and another country more as measured by value; or two or more countries may be nearly equal but may be shipping different classes of goods, or to different American markets, or at different seasons. While this is a difficult problem to handle, it is believed that in general it has yielded to reasonably practical conclusions.

We come now to the problem of the principal American market or markets. Inland farms, factories, fisheries, or forests may have a great advantage in inland markets but great difficulty in reaching coastal markets on account of high rail rates versus government-subsidized water rates on imports. In contrast, coastal producers and importers may have an even break, both in coastal markets and inland markets. This is one of the most difficult sets of problems which confront the

Commission,—i. e., the problem of transportation and of principal market or markets.

Of somewhat the same nature is the problem of regional and seasonal competition. Imports may have distinct advantages in some regions as imported anthracite coal has in New England; or in some seasons, as winter vegetables from Cuba and Mexico have in some areas. Since the Tariff Commission may not prescribe different rates for different ports or areas, or for different seasons, but only for different grades, classes, price or other groups of articles, the only equitable solution in cases reviewed to date has been to base the duty on weighted averages, which, however, have left domestic products predominant in some areas and imports in others, and domestic products predominant at some seasons and imports at others.

Another difficult problem which has confronted the Commission during the last four years has to do with a representative period of time for cost comparisons,—bearing in mind that cost differences must be an analysis of past performances and new rates of duty proclaimed must project us into an unknown future situation. It must be evident that a factory operating at full capacity and producing 100 units in 1929, would have a unit cost vastly different from that prevailing when the plant was operating at 20 per cent of capacity in 1932, *but* with the same taxes, imputed interest on fixed assets, depreciation, repairs, and general overhead expense, even if costs for labor, raw material, etc., remained the same. Add to this picture declining wages, salaries, costs for raw materials, etc., and you will see the difficulties of this particular problem. Here it is well to call attention to the fact that as prices decline, specific rates of duty mount higher and higher in ad valorem equivalent. Thus, if the duty on an article valued at $1.00 in 1929 was 30 cents, it was a 30 per cent duty; if the article has declined in price, in 1932, to 60 cents, the same duty of 30 cents is now a 50 per cent duty. When the price of Cuban 96° sugar was $2.00 per 100 pounds, and the duty was 2 cents per pound, the duty was 100 per cent; when the price fell to 50 cents per 100 pounds, and the duty remained at 2 cents per pound, the ad valorem equivalent was 400 per cent. On the other hand, when prices are advancing, specific duties grow lighter. In contrast, when prices are fall-

ing, ad valorem rates of duty decline in specific equivalents. Thus, on an article valued at $1.00, a duty of 30 per cent has a specific equivalent of 30 cents; if the price falls to 60 cents, the 30 per cent duty is now equivalent to a specific duty of only 18 cents. Of course, the opposite is the case when prices are advancing. This has led some students to the suggestion that specific duties should have definite maximum and minimum ad valorem limits, and ad valorem duties definite specific limits. Of course, these phenomena are only characteristic of periods of rapid price changes and perhaps the more practical solution of this problem lies in the field of stabilizing prices. It is none the less one of the most serious problems in any attempt to adjust tariff rates in a period of falling or rising prices.

We come now to what is probably the most serious problem of all. Having found a domestic commodity in competition with a like or similar imported article; having established the principal competing country and the principal American market or markets; having decided upon the representative period of time to be covered; and having worked out all seasonal, regional and other problems and any "other advantages or disadvantages" in competition; how shall we arrive at representative domestic and foreign costs in those cases where cost methods are applicable? There is the question of high cost and low cost farms or factories, well located, or badly located. How many factories or farms shall be costed to be truly representative of the industry? What if the foreign factories do not choose to give access to their records? Shall invoice prices be taken as an evidence of costs? Do the imports come from low or high cost factories, and do invoices include an element of profits, or are articles being imported at prices under the cost of production? If the domestic industry is largely mechanized, and uses very little but highly paid labor, how shall it be compared with a foreign industry only slightly mechanized but employing many laborers at low wages? How shall we segregate the costs of a given article or grade or class of article, if a factory makes a hundred or a thousand different articles or grades of articles, losing money on some and making satisfactory returns on others? These are only a few of the questions which come before the Commission. It

is well known that few farms keep cost records and generally the more efficient enterprises have the best records.

Needless to say without a capable staff of economists, statisticians, accountants and technical men and women, the Commission would not be able to do its work efficiently. The policy for a hundred years and more was to invite interested domestic producers and importers to file their claims before committees of Congress, examine import statistics, and then " agree " upon a rate of duty. Frequently, interested parties overstated, or understated, or misstated their claims for consideration. The turbulent scenes in Congress were an evidence of the difficulty in " agreeing ".

In spite of the many problems which I have presented which confront the Tariff Commission, I believe it may be said that great progress has been made toward a sounder and more accurate basis for adjusting rates of duty than the hundred-year-old methods. I am not discussing the question whether this country should have a low-tariff or a high-tariff policy, or whether emphasis should be placed upon the amount of revenue, or the amount of protection, or the importance of international trade. These are matters of public policy to be determined by the Administration in power—by the President and the Congress. This having been decided, the problem before the Tariff Commission is one of testing or verifying rates of duty, classifications, bases of value, etc.

It should be added here, in view of the subjects of the three addresses to follow mine, that during the sixteen years of work by the Tariff Commission in conducting surveys and the ten years of adjusting rates of duty, a body of information and a small staff of experts have been built up which will be of invaluable assistance to the government either in future tariff revisions or in negotiating reciprocal trade agreements, whether the policy is chiefly to build up our foreign commerce, to protect American industry, or to produce revenue, or whatever the policy.

The long list of problems which present themselves in the administration of the flexible tariff provision may lead some to conclude that the provisions are impossible of application. Whether the theory of difference in costs of production should be the basis of tariff rates is a matter of high public policy to

be decided by public opinion and enacted into law by the Congress, but the experience of the Tariff Commission in the past few years indicates that some yardstick or measure of tariff rates can be applied to particular industries, even though it is the somewhat inflexible stick of cost differences. For want of time, detailed discussion of even the more important investigations cannot be made but perhaps some bare figures will give an impression of the extent of the Commission's work in recent years.

Since the Tariff Act of 1930 became effective in the middle of that year, that is to say, during a period of about thirty months, the Commission has given consideration to approximately 225 applications for action under the flexible provisions and related clauses of the Tariff Act. These 225 documents are not mere pieces of paper in the Commission's files, but the problems raised by each of them have received the careful consideration of the Commission and its staff, in some cases involving several weeks of work of one or more men to determine whether or not the Commission was justified in spending public money in a full and formal cost investigation. These applications have been worth every dollar of expense put upon them by informing the Commission of the conditions in the industries regardless of what subsequent action may have been taken.

Of the 225 applications, nearly 75 have been dismissed without prejudice after a careful examination of the facts involved. On the other hand, a total of about 135 investigations, or more than one per week, have been ordered, of which about 30 were under the general powers of the Commission; that is to say, the Commission decided in these cases that the public interest would be best served by a broad rather than a narrow study of the problems raised in the applications. Going back to the entire number of formal investigations, namely 135, more than 90 of them, or one every ten days, have been disposed of in one way or another, and the majority of the 90 have resulted in formal reports to the President, together with the Commission's findings.

So much for the bare statistics of investigations and reports. Back of these lies more than the mere count of items on which duties were increased or decreased. Probably the more im-

portant consideration is the intimate knowledge which the Commission and its staff now have of many basic industries, as a result of its investigations, both from the point of view of the domestic producer and of the import trade. For example: for the first time in the history of tariff legislation, we shall be in a position to tell, among the hundreds of varieties of cutlery, what types and grades are truly and sharply competitive as between imports and domestic production; what types are predominantly produced in the United States but not imported under prevailing conditions, including the duty; and what types are largely imported with small domestic production. These facts will be of great value in tariff bargaining.

Another by-product, so to speak, of the Commission's investigations is the friendly relations which the Commission has developed with the domestic, the importing, and the foreign producing industries. Not only do importers and foreign producers regularly come to the Commission's public hearings to present their case, but under the flexible provisions, for the first time, the foreign manufacturers have an opportunity to present in a confidential manner the intimate details of their costs, which in the past have been largely minimized rumors. The surprising thing is that they not only have the opportunity but take advantage of it in almost all cases where the Commission's agents have made contacts with them. Both the domestic and foreign producers seem to say, " Now, at last something can be done about a rigid tariff system. We do not have to wait for the periodic general tariff revision to get changes in particular rates ". Whether their hopes and expectations have been justified in the past is not under discussion, but at least in the past ten years there has been some hope of " doing something about it " in cases of serious maladjustments.

III. THE METHOD OF PUTTING THE FINDINGS OF THE COMMISSION INTO EFFECT

I come now to one of the most controversial problems in connection with the work of the Tariff Commission under the so-called flexible provisions of the Tariff Act. After the Commission has completed a case and finds that an increase

or decrease in duty, or change in classification or value basis is warranted, (a) shall the Commission proclaim the result (with right of appeal of interested parties to the Courts); or, (b) shall the conclusions be certified to the President, who may reject the findings, or change them, or approve and proclaim them; or, (c) shall the conclusions be reported back to the Congress, and if reported to the Congress, shall they become effective if not actually disapproved by one or both Houses, or remain merely a recommendation until affirmatively acted upon by Congress and the President? These are the principal proposals which with minor modifications have received much study. Which shall be the law is a matter of high public policy to be determined only by public opinion and enacted into law by the Congress with the approval of the President. It would not be useful for me to express an opinion on this subject without a detailed analysis of the philosophies involved and an historical study of past experience. Time does not permit this discussion at this time. It is even then a question whether a member of the Court or Commission should engage in a discussion of the controversy, although it would be highly useful for him to give expert testimony of the workings of the different approaches to the subject. Suffice it to say that under the present law, the conclusions of the Commission are filed with the President, who may return them to the Commission without action, or approve the findings; and if he approves, he issues a proclamation putting them into effect at the expiration of thirty days. The Supreme Court has declared this procedure constitutional, without, of course, indicating whether in their judgment this is the wisest method of procedure.

Remarks by the Chairman

Chairman Morgan: We are grateful to Mr. Coulter for this very lucid analysis of the intricacies of the work of the Tariff Commission. It occurred to me, in the course of his talk, that perhaps we might write an epitaph on tariff legislation to this effect, paraphrasing the well-known childhood maxim:

> What a tangled web we weave
> When first a tariff we conceive!

It has been my duty often to go to Washington and sometimes I have gone to the State Department. Walking down the corridors there, I have seen on the door the name, James Grafton Rogers, Assistant Secretary of State. I have always said to myself, "There is a fellow I want to see!" Then I would talk to one of the other Assistant Secretaries and he would say, "Oh well, Jim Rogers is the man you should see but he is so terribly busy I am afraid you can't." So it is a pleasure to me this afternoon to have Mr. Rogers under my thumb. At last he is going to talk to us, for at least twenty minutes, and we are going to learn from him a great deal. Mr. Rogers!

RECIPROCITY AND THE MOST-FAVORED-NATION CLAUSE

JAMES GRAFTON ROGERS
Dean of the Law School, University of Colorado
Former Assistant Secretary of State

THE nations of the world are in recent years strangling the flow of international trade between them by governmental measures. These measures are in part, tariffs; in part—and progressively more so—other more direct impediments such as embargoes, quotas fixing the amount of goods allowed to be imported, restrictions of means of paying for imports, and other more involved regulations. The motives for the measures are chiefly three: (1) the policy of artificially protecting a nation's own industry by barriers against competition from abroad; (2) the desire for the revenue easily collectible from import trade; (3) currency protection, that is to say the preservation of a nation's currency from depreciation on the international exchange and prevention of the withdrawal of gold from national reserves to balance excess demands for payment abroad. These are all familiar facts. The disastrous results are notorious. International trade has fallen off at least a third in commodity quantities since its crest four years ago and these measures share some considerable responsibility.

The simple general impression that high tariffs are the cause for the decay of international trade is wrong, for the height of tariffs is not the critical factor and there are other causes for our dwindling trade statistics quite as significant as any and all the artificial barriers. We can, however, blame some of our difficulties on the governmental checks against free flow. That topic we can discuss. There we can to some extent control events.

The man-made impediments to trade, such as tariffs and embargoes and quotas, fall in a rather specialized field of human experience. The men who have studied this field are

few; those who have real experience in its practical problems fewer still. The lore is confined mostly to some experts and public men in governmental service, some few international traders, various research men in public institutions and a number of academic scholars. The literature of the subject is dull, diffuse and dusty beyond compare. Yet the topic is one in which great popular impulses and national sentiments are active and predominating and the principles developed are rather few and simple. What I have to suggest today will seem rather meager fruit of two years' daily exposure to the practical problems of international commerce in our Department of State.

There are three rather well defined policies in operation as respects the regulation by modern governments of trade between nations. Two older policies have disappeared or dwindled to insignificance. Of the older policies, one was called mercantilism. This was the aggressive maneuvering, grasping and management of opportunities for trade abroad by a nation acting as a merchant might, to seize, monopolize and exploit a field for selling his goods. This policy still threatens the world sporadically but is, I think, faded or fading from the scene. Another older policy was free trade, the attitude of non-interference by governments with the natural currents, the ebb and flow of commerce. This, too, is gone. Every important government and nearly all the lesser units are actively intervening today. The nations today are all hampering, levying on and manipulating trade and the policies now in operation are simply three different attitudes in which nations approach the treatment of trade from and to other countries by agreement as to policy. All three attitudes lead to forms of treaties which are expected to govern the impediments to trade.

The three schools may be called the school of equality of treatment, usually known as the most-favored-nation policy, 1
the school of special bargaining, which tries to gain trade 2
opportunities by buying and selling concessions or special privileges to other nations, and the school of group or area 3
agreements, which tries to get outlets for trade by joining with several other nations in a regional or multilateral compact for lower national barriers. The United States has

pretty consistently clung to the equality school. The present-day French and Spanish policies are of the special bargaining color. The recent British policy, represented by its Empire Preference agreements, and such experiments as the Ouchy agreement between Belgium, Netherlands and Luxembourg to reduce their tariffs as between themselves, illustrate the school which tries to pull down the dikes by regional or multilateral compacts. These three plans, the equality practice, the special bargaining policy, and the multiple regional scheme represent the real thought and practice of the world today. It will be noticed that they all assume the existence of trade barriers on international boundaries and differ only as to how they treat, accept or struggle to reduce those barriers with an eye to the opportunities of their own people.

With these policies in mind, and accepting them as the only known procedures available for practical statecraft at this given hour, recognizing the need for some alleviation, assuming the opportunity for it developed by world-wide dissatisfaction with the weeds that choke our paths, what can this country, the United States, chart as a wise course? Let us for a moment examine the three policies.

The equality school repudiates the efforts to drive special bargains with other nations, reserves to itself freedom of action as respects the dikes it pleases to build on its own frontiers but offers its neighbors a guarantee against discrimination if they will reciprocate, each in turn, by the same guarantee. This guarantee is made by a treaty for typically five or ten years or by a revocable *modus vivendi* in which each nation pledges to give the other most-favored-nation treatment, that is to say, to give the other as low tariff rates and as friendly a reception in general as is accorded anybody. The phrase gives the name to the policy. It is essentially a device to produce equality, for such it accomplishes in direct ratio to the prevalence of the agreements. This has been the American plan on the whole throughout our history. We have today, it is true, a preference arrangement with Cuba, which is based on political grounds and the maintenance of which is recognized in our other international contracts. The Cuban exception is not a real one, as special instances of this sort exist elsewhere and are well established in world precedents.

We have, of course, special arrangements also for our possessions, the Philippines, Porto Rico and so on, but these are intra-family cases. We had once for twenty-five years a preferential agreement with Hawaii which preceded annexation. In the Civil War period there was reciprocity with Canada and efforts to restore some such status have been made and are today under discussion. In the 'nineties we made some efforts at other preferential arrangements. The Argol agreements, so called, were small-scale bargains which lasted a few years. The Kasson agreements, about the same period, were a series of wider efforts which came to nothing. In 1904 we got preferences with Brazil which survived until 1922. The deviations are all those worth mentioning in three generations. The United States has practiced equality of treatment. It is today committed to this policy by treaties with many of the important nations but most of these agreements are short-time arrangements or will be revocable within a few years.

Our policy has been determined in this direction by a variety of causes. The general rise in favor of the equality school during the last century has been one of the elements but in my judgment a minor one, as American attitudes have been little swayed by Old World political thinking. In the beginning this country was much influenced by the tradition against foreign entanglements. It is and has been true that special trade agreements are seldom uncontaminated by political features. In later years the need for preserving freedom to carry on the high protective policy which is so ingrained in our public thinking and also the wide diversity of our own industries and exports seem to have been the determining factors. A bargaining policy in the true sense means some breaches in tariff walls. It is also a difficult procedure for a nation which produces everything, wants to sell everything and everywhere and cannot make concessions for a bargain without exposing some branches of its own industry. To put it abruptly, a bargain with Australia to lower the barriers against American refrigerators in exchange for lowering our own barriers against Australian wool, which might be a typical bargaining treaty, is difficult when the only interested advocates are our small percentage of refrigerator manu-

facturers and we meet the opposition of as large a representation of constituents who grow wool. Nations with specialized export, or both export and domestic, industries are in an altogether different position from the United States. These and other factors have undoubtedly controlled our policy — the political dread of entanglements, the tradition of protection and the wide variety of our own production. In recent years the policy of equality has steadily gained ground in professional opinion, due in part to the growth of certain political ideas and the rise of the smaller nations, as well as to expert observation. It can be said that prevailing opinion here and at large is in its favor. Personally, I have little doubt that the United States must and will maintain the general principle.

The chief alternative offered in the past century, once free trade was abandoned, has been resort to the special bargaining school. The history of France, the recent experiences of Spain and the older records of Europe give us a vivid picture of its operation. To a nation with a highly centralized political control, able to change its tariffs by executive decree, without resort to a legislature, a country specialized in its export commodities, not too much committed to preserving domestic protection and rather keenly concerned in preserving alliances and groups for military or political purposes, the policy offers many attractions. Indeed only a country with a flexible government and a specialized production ought to find some advantages. Some or all of these conditions seem essential to success. Even then the results are transitory. Nations like politicians do not stay bought when they are purchasable. The policy leads inevitably into political consequences. France uses it avowedly for other than commercial ends. The practice degenerates easily in the hands of men who are exposed to the influence of strong industrial groups on the one hand, or to preoccupation with political as well as purely trade problems. Preferences soon produce antagonisms and tariff wars. All in all, the special bargaining school seems to me peculiarly unsuited to American conditions and traditions. Our experiments under the McKinley Tariff of 1890 and the Dingley Tariff of 1897 confirm this doubt. Let us make it clear, however, that these observations apply only in part to the practicability of reciprocity with border countries like Canada

and even Mexico or Caribbean nations. There special considerations make easier the path. Reciprocal agreements of this type, founded on geographic and racial proximity or even on a geographic basis alone, surrounded as they are by other than purely commercial ideas, are not in any sense representative of a general bargaining policy.

A more promising opportunity is offered by the school I have referred to as experimenting with group or areal multilateral compacts to reduce trade barriers. It is quite possible that the strangulation of trade by economic nationalism may be broken by the growth of relatively free custom areas through this technique. The Ouchy plan, still really uncompleted, has at least a flush of promise. Under it three countries agreed to reduce their tariffs as against each other ten per cent a year for five years, or fifty per cent in all. They offered the benefits and obligations of the agreement to any other nation that cared to adhere. The British Empire agreements are vastly different. There internal walls were lowered as between the members of the Commonwealth, but new and higher walls were erected against the world. Except as the agreements show a tendency to breaking the deadlock by grouping, the arrangement is not representative. It is besides on obviously precarious footing and a rather specialized proceeding. There are some other movements toward regional concessions. The Oslo convention is an example. Others such as the Danubian project and ideas suggested elsewhere are yet unfashioned. An American regional agreement is not at all fantastic in conception if this country is willing to venture any concessions at all in its tariff ramparts. At least the multilateral plan deserves attention. Its coördination into a general scheme of equality of treatment is suggested by the right of adherences established in the Ouchy document. International law can find a way to meet the technical difficulties if the scheme furnishes a real road to relief.

The belief already expressed in the long-time wisdom of equality, the critical attitude assumed toward the bargaining school and the rather untried nature of the regional scheme may seem to leave us without any forward-looking plan. This is not the case. There is under the equality policy and within the framework of the most-favored-nation treaties a possibility

of barrier reduction by agreement which is relatively simple and easy if the American public is willing to do anything at all to lubricate international trade. The possibility is well recognized among students and a detailed examination of trade figures shows the practical opportunity.

The most-favored-nation treaties, in essence, provide that the parties shall be given the benefit of any bargain given to others. The agreement is not to give nations equal advantages, or even to make tariff walls of the same height for both parties. The agreement is only that commodities of every character shall be admitted under the same conditions as those afforded to other nations for like commodities.

It is lawful under the agreements and just under their principles to reduce by agreement with Brazil the tariff barrier on coffee into the United States in exchange for reduction of Brazil's rates on our potatoes into Brazil. If both nations are bound by most-favored-nation treaties with third governments, say Brazil with Chile and the United States with Germany, Brazil must now let Chile import potatoes at the reduced tariff into Brazil and the United States must let Germany import coffee at the new rates into this country. The concession may not interest Germany but it need not anger her as a preference would do. She has lost nothing; Brazil has gained. The United States has made no great concessions except to the coffee-growing countries, Brazil and one or two others. She has gained potato trade to offset. This process of generalizing concessions under equality treaties has been employed on a considerable scale in Europe. It preserves equality, lowers tariff barriers and, if wisely pursued, is a practicable path.

The practicability of this procedure of making mutual reductions of tariff barriers on a small list of commodities of special interest as between ourselves and any one nation and then generalizing the new rate to all who give us equality of treatment is of course dependent on some special conditions. They seem to me chiefly as follows:

First. Is it possible to pick out for each individual trading transaction a set of commodities which will especially interest the other country and yet not interest others sufficiently to destroy the trading possibilities with them in turn? To illustrate, can we give concessions to France on cosmetics,

cordials and dress models for instance, and yet not destroy our opportunity to drive a bargain with Spain on olive oil and cork? It would so seem. The opportunities are really considerable. A rough survey of our trade with the thirty principal nations shows that each is the leading producer of certain articles which constitute from fifty to over ninety per cent of its dutiable exports to this country. Thus, for example, wool constitutes normally nearly all of Australia's shipments to America and a concession to Australia on wool would to her be of great value and yet of relatively little importance to other countries. My judgment is that this condition applies to at least twenty nations and that in these the industry which could be favored would have the political strength to mature the bargain.

Second. Are concessions to be granted the United States on specific products of our own selectable on the same basis? This problem is more difficult, partly because we now face a matching problem, but it seems to me practicable in at least a dozen cases.

Third. Would the concessions bought for America in each case be sufficient to offset the resistance exerted here by industries exposed to less protection by our own reciprocal lowering of barriers? Here is the crux. The concessions desired from us by other nations are mostly in behalf of agricultural or land products. So far as they consist of items like coffee, rubber, tea, tropical vegetable products like drugs, cork and so on, the reductions in tariffs will only affect minor industries. But most countries want to sell us items like bacon, butter, hides, meat, tulip bulbs, wines, wool and so on which compete directly with domestic producers. We must never forget and yet we constantly do forget that we can sell more only as we buy more. At least we cannot sell without reciprocal spending or lending. The only program practicable in my judgment would be simultaneous negotiations covering enough countries and enough items to promise comprehensive results and enlist widely scattered public support. We cannot, in view of our history, trade the American dairy farmer for the benefit of the American electric light industry or vice versa.

Fourth. Is the negotiation of such agreements practicable in view of our political machinery? It is in my judgment

worth trying only if Congress is willing to entrust the President with wide power to negotiate firm agreements for terms of years and to lower our tariff barriers in return. Authority to lower barriers to a given percentage on a wide range of articles would at least be essential. It is well to remember that our Congress has power to destroy the effective operation of a treaty for a term of years by legislative act. Experience also indicates that the submission of a series of treaty bargains to the Senate, as in the case of the Kasson treaties, gets us nowhere. The program implies wide power, great courage and much prestige in the Chief Magistrate.

Fifth. Is it practicable to liberalize our regulations and administrative machinery as well as to lower tariffs? The authority to negotiate should include this subject on both sides, for tariff rates are only part, indeed the lesser part of the grounds for complaint. The complaints are based in part on matters of law and regulation, in part on elements of spirit and sympathy. The United States is only following examples abroad when we find the Departments of Agriculture and the Treasury applying their own little theories of protection in the guise of sanitary, fiscal and inspection regulations, but they are bad examples.

Finally, it must be pointed out that the lowering of tariff barriers here and abroad is no general solution for the demoralization of international trade. We cannot sell more unless we buy more. It is also evident that trade is languishing in part because of the recent wide establishment of general manufacture in countries which formerly produced little but raw material. England's exports of textiles, for example, are now affected by the growth of cotton mills in India and China. Finally, the height of tariff walls is not, in spite of all the propaganda, the most critical factor in impeding trade. Impediments represented by quotas, embargoes and even sanitary and inspection regulations are of growing importance, and uncertainty about tariff levels is as great a threat to trade as their altitude. We can look with favor on a policy of reciprocal negotiation primarily because it promises a breach in the vicious circle of retaliatory restrictions to international trade. We should and can avoid the entanglements, uncertainty and antagonism of a loose bargaining policy.

Remarks by the Chairman

Chairman Morgan: I have hidden from you one revealing fact about the last speaker. For a year or two, he was a reporter on the old *New York Sun*. At a somewhat different time, I also was a member of that amiable company. I think if I hadn't known it, from the lucidity and vigor of his speech, I would have recognized the fact.

We have heard thus far from Mr. Coulter about the operation of the tariff administration as we have it. We have heard from Mr. Rogers about the possibilities of applying the principles of reciprocity under the traditional tariff policy of the United States, that of most-favored-nation practice.

We now come to a third phase. Mr. Day, who is Director for the Social Sciences of the Rockefeller Foundation, was one of the American representatives on the Preparatory Commission of Experts for the World Monetary and Economic Conference. The subject which he is going to speak to us about is "Tariff Bargaining." Any of us who have ever attended or observed international conferences know that these things go on sometimes under the guise of bargaining, sometimes horse trading, sometimes playing poker. Mr. Day will, I am sure, take the more dignified course and discuss this process as bargaining. Mr. Day!

TARIFF BARGAINING

EDMUND E. DAY
Director for the Social Sciences of the Rockefeller Foundation;
U. S. Representative on the Preparatory Commission of Experts for the World Monetary and Economic Conference

THE present government of the United States has committed itself to a policy of tariff bargaining. Two broad questions are raised by this action: first, to what extent does the policy now contemplated break with previous American tariff practice; and, second, what conditions are likely to determine the success or failure of the new program. In the brief time available this afternoon these questions can be dealt with only in bare outline, but even brief treatment will serve to bring out some of the important issues that are involved.

For more than a century tariff legislation in the United States has clung tenaciously to a number of basic principles. From time to time certain deviations have appeared but, by and large, these have proved shortlived and have introduced no important changes. The new policy will throw some of these earlier principles into sharp relief.

The most conspicuous and best known feature of tariff policy in the United States is the persistent and cumulative protection of American enterprise against foreign competition. Grounds for adherence to this policy have shifted from time to time as political exigencies have required, and occasionally the trend toward higher duties has been interrupted, as in the acts of 1833, 1846, 1894 and 1913. But in effect the ideal of protection has been consistently pursued since the very beginnings of the government and opposition has rarely accomplished more than a moderation of the excesses to which the principle has at times been carried. No element of American economic policy appears to be more deeply rooted nor is any less likely to be completely abandoned.

Another widely recognized feature of tariff legislation in the United States is its strongly political color. The compel-

ling forces which have put the long series of tariff acts upon our statute books have been predominantly self-interested and partisan. Administrative or expert counsels — even since the establishment of the Federal Tariff Commission—have played a relatively unimportant rôle. As early as the Act of 1789 the Congressional representatives of the two states of Massachusetts and Pennsylvania set the precedent. Ever since that time tariff legislation has been dominated by highly organized and powerful pressure groups operating through Congressional channels. Party against party, section against section, industry against industry, manufacturer against raw material producer — the forms of opposition may have varied; but, underneath, the unrelenting play of producer interests has tended to fix the level of the duties finally imposed. In no line of governmental action have the sordid effects of lobbying been more evident. In none has it been more difficult to secure effective representation of the general public interest. Appeals to take the tariff out of politics have proven entirely futile. Tariff legislation despite its highly technical character has always been a creature of political forces.

In another respect tariff legislation in the United States has a consistent record: it has been uniformly autonomous in the sense that its adoption has not been contingent upon the passage of related legislation in other countries. Doubtless from time to time American policies have been affected by the action of other nations. But—aside from certain abortive attempts at reciprocity—there has been no important intergovernmental bargaining. In this field as in others, the American policy has been neither to give nor to seek corresponding favors.

Closely associated with this phase of policy has been long-sustained adherence to the principle of non-discrimination among the foreign countries. The rule has been to apply American customs regulations and duties uniformly to all imports whatever the country of origin. Of recent years provision for unconditional most-favored-nation treatment by all countries has been another and closely related feature of American policy. Results in this direction, however, have been disappointing. Even provision for extreme penalties against discriminations by foreign countries—such as is found in Section 338 of the Tariff Act of 1930—has failed to bring other

nations into line with American wishes on this point. In the eyes of other countries non-discrimination has little virtue if maximum rates are applied to all.

Review of American tariff legislation over more than a century discloses thus at least four striking features: consistent and cumulative protectionism; purely political controls of the system; autonomous application of the laws without intergovernmental bargaining; and avoidance of discrimination among the many differing nationals affected by the imposition of the rates. To what extent will the contemplated bargaining tariff policy break with this record of the past?

Most obviously a fundamental change will be introduced with respect to the conditions under which any new legislation will take effect. Hereafter action on the American side will be contingent upon related action by one or more foreign powers. Autonomous tariff legislation presumably goes into the discard; or at any rate, if used at all, it will be supplementary. In the main, bilateral or multilateral negotiations will lead to conventions which will become operative only when necessary formal approvals have been secured from all the governments concerned.

To what extent will the tariffs thus adopted be made discriminatory as between the nations within and those without the specific conventions? On this point opinions appear to differ. In some quarters it is apparently held that there is an inherent conflict between effective tariff bargaining and an unlimited extension of the concessions to all parties whether or not they are directly involved in the conventions adopted. On the other hand there is impressive expert authority for the opinion that adherence to the principle of most-favored-nation treatment is entirely consistent with satisfactory bargaining. It is to be hoped that the latter view will prevail among the Washington authorities, at least until a thorough-going test has been made of its practicability. Mr. Rogers has already given a lucid explanation of the several lines along which this attempt should be made. Doubtless there should be limitations upon the scope of most-favored-nation treatment. Certain desirable exceptions to the rule have been noted in valuable studies conducted through committees and conferences under the League of Nations. But that unconditional most-favored-

nation treatment should constitute the basic principle is generally admitted. Otherwise a network of discriminations will develop that will almost certainly breed ill-will and in time may bring a serious setback in the promotion of more amicable economic relations.

It is the avowed intention of the present administration to obtain from the bargaining tariff policy a lowering of existing tariff barriers. How far substantial progress can be made in this direction remains to be seen. The record of earlier years, as already noted, is not encouraging. But that certain underlying developments in the American economic situation during recent times improve the chances of some moderation of the traditional high protectionism is quite evident.

It is probable, however, even under present conditions, that if genuine and substantial reductions of prevailing duties are to be effected a change must be made in the legislative processes by which duties are fixed. So long as the tariff remains as largely in politics as heretofore, so long as the fixing of rates is subject to Congressional dictation or lobby interference, a considerable and permanent reduction of existing duties is bound to prove exceedingly difficult, if not impossible. Delegation of authority to the Chief Executive to negotiate tariff reductions within stated limits and to give effect to these reductions by presidential proclamation would seem to be of the essence of the new policy. Even then the undertaking is bound to be one of enormous complexity.

So much for the points at which the new bargaining policy breaks with the past: what are other factors which are likely to determine its success or failure? A considerable number of them might be listed. Only a few of the more important, however, will be mentioned. Some of these derive from the extraordinary world conditions now prevailing; others are of a more durable character.

International political relations, of course, have a fundamental bearing upon the possibilities of effective tariff bargaining. As matters now stand, some clearing of the political atmosphere is indispensable. War clouds are no setting for forward-looking commercial negotiations. Until real progress is made toward military and naval disarmament, national policies, economic as well as political, will be dominated by narrow

ideals of defense and security. Assurances of a durable peace are an essential preliminary to the restoration of normal world trade. Suspicion and animosity no more make for satisfactory business arrangements among nations than they do among individuals. Successful tariff bargaining rests at bottom upon general confidence and this can only be established when political relationships provide the necessary guarantees. No considerations cut more deeply than these into the prospects of the new trade policy.

Measures of economic warfare, equally with the means of aggressive armament, must be scrapped before satisfactory commercial negotiation is practicable. Under present conditions international trade is checked in every direction by arbitrary restrictions and prohibitions, by exchange controls, by depreciated currency fluctuations. Tariff bargaining presupposes a substantial degree of stability in the fields of money and credit; it cannot make substantial headway in the midst of financial disorder. Moreover it is impeded by the extremes to which governmental intervention has gone in fixing both the direction and the volume of trade in some countries. In general, bargaining will probably tend to settle on the level of the most rigid forms of regulation represented among the nations undertaking to negotiate. Until currencies are stabilized and numerous arbitrary trade discriminations and restrictions are abandoned or at least moderated, the new tariff policy will make no great headway.

Another factor of supreme importance in determining the success or failure of the new policy is an adequate definition of objectives. Tariff bargains must be articulated in a more comprehensive economic program, the parts of which are appropriately interrelated. The period of the 1920's amply demonstrated the absurdity of promoting exports and stimulating foreign investments without regard to the means by which foreign purchasers and debtors were to make payment, either on the current items or on obligations previously assumed. The Hawley-Smoot Tariff Act in many respects further added to the absurdity of the total situation. In general the economic policies incorporated in the war settlement and in a host of post-war measures may be said to have constituted unintentional economic suicide: they have been crowded with

basic contradictions and inconsistencies. If the American Government is to engage in tariff bargaining it should do so with a view to the probable consequences of all parts of its economic program and in such a way that the total program makes economic sense. That this will be difficult is, of course, to be admitted. But this is merely one of many points at which difficulties must be squarely faced. Failure to define adequately the objectives of the bargaining policy threatens ultimate failure of the entire undertaking.

A danger to which tariff bargaining is peculiarly subject is an exaggerated emphasis on the purely direct and bilateral effects of negotiated arrangements. Such slogans as "Buy from those who buy from us", are so plausible that even government officials may be led astray. It is difficult to keep sufficiently in mind the fact that many of the most sound and profitable international trading relationships are multicornered. Any tendency to reduce trade conventions to purely bilateral terms is almost certain to be a step backward. Multilateral agreements or the simultaneous negotiation of two or more related bilateral conventions would seem to be the way to avoid this particular danger. A further safeguard is to be found in more general recognition of the fact that trading which takes advantage of differences of comparative cost among the producing nations is still sound, though somewhat old-fashioned, economic doctrine.

Another factor which will play an important part in the new policy is the willingness and ability of government to make genuine concessions. Certain reductions of prevailing rates on the American side should involve no very serious interference with American business interests, at least directly. Certain articles, which are given high protection under our present Tariff Act, are produced, nevertheless, only in slight measure in this country. While the problem of substitutes arises and doubtless there will be competitive sensitiveness, some imports may be more freely admitted without destructive effect on any enterprises of large proportions. Possibilities of this sort, however, are limited. Sooner or later in the bargaining program, the Government will have to face the fact, plain and unvarnished, that concessions cannot be made without injecting material foreign competition into certain sections of the

American market. The procedure will then necessitate not only nice negotiation, but a large measure of political courage. At this stage, the sailing will not be smooth even if the total result is unmistakably in the public interest. How far the Administration, even with the best of intentions, can get concessions out of our prevailing American processes of treaty-making and legislation is uncertain. As noted before, unless provision is made for a substantial delegation of power to the Chief Executive, the possibilities appear to be closely limited.

Finally, it is of the utmost importance that there be infused into the contemplated bargaining a spirit of underlying coöperation. The nations of the world must work together if satisfactory conditions are to be restored. If the projected commercial negotiations fall to the level of the huckstering of the market-place, if they incite a striving for petty and minute gain, if they exhibit an unwillingness to yield anything without a manifest, direct and completely offsetting advantage, they will not get far. Negotiations are bound at best to be exceedingly complicated. They will tax the patience and goodwill of those who participate. Unless there can be a note of common purpose, there is an unmistakable risk of more ill-will and of more barriers to international trade than exist at the present moment. To suggest that tariff bargaining should be friendly is no counsel of perfection, but one of necessity. American tariff policy in moving into its new phase will tax the resources of the new Administration in many directions. But no other form of action at the moment promises as much in the way of better tariff readjustment on the American side. Moreover, measurable success in the undertaking will work a change in American commercial policy of extraordinary significance.

PART III

INTERNATIONAL COLLABORATION

INTRODUCTION [1]

JACKSON E. REYNOLDS
Vice President of the Academy of Political Science
President of the First National Bank of New York

MEMBERS of the Academy of Political Science and Guests: I know that I voice the regret you all feel that the President, Mr. Houghton, is not here this evening to introduce our guests with one of the charming and interesting addresses he always provides for us. It devolves on me, therefore, as Vice President, to act in his stead.

Our British guest is a Trustee of the Academy, and he is known to a great many of us as a teacher, a writer, a statesman, and an editor. My own acquaintance with him goes back to about four years ago when we were associated together as members of the committee for the organization of the Bank for International Settlements.

The Statutes of that Bank, I think, are the most lucid and terse documents I have ever read and most of that is due to the work done by our guest as the head of what we flippantly called the polishing committee. I complimented him at the end of our session there on this quality of succinctness and brevity in the statutes and he very modestly agreed with me that they were the best documents of the kind he had ever seen (laughter), but he made one reservation. He said he agreed except as to Article IV. That article he did not write nor polish. I did that myself. (Laughter.)

Our guest is one of the few liberals left in a most illiberal world. He is an exponent of liberalism not only as a profession of faith but also as a canon of behavior, and his behavior

[1] Introductory Remarks at the Annual Dinner Meeting.

is shown when you are his adversary; he is always liberal with you and, if you omit or state inadequately your own position, he is so fair that he does it for you.

Another quality which he exhibits, and one which makes him a useful citizen of the world today, is his outspoken belief in the advantage of a world economy. This comes in part from his broad knowledge as a trained economist and in part, I think, from the happy fact that he stands in that center of international affairs and trade which is London. That quality in him has found expression in his passionate devotion to the League of Nations and his evangelistic zeal in opposition to all trade barriers at all times. For these and many other reasons we welcome him and his message this evening.

I have the privilege of presenting Sir Walter Layton.

INTERNATIONAL COÖPERATION IN THE ECONOMIC CRISIS

SIR WALTER T. LAYTON, C.B.E., C.H.
Editor, London *Economist*
Chairman, London *News Chronicle*

MR. CHAIRMAN: With your permission I should like my first words tonight to be a tribute of respect and affection to the memory of two distinguished members and staunch supporters of this Academy, both of whom were present when I addressed you last. I refer to Dwight Morrow and Roland Boyden. To America, their loss, particularly at a time like this, is very heavy indeed, and their place will be difficult to fill; their loss is no less grievous to the nations of Europe whose problems and idiosyncrasies they both understood so well.

I hope, Mr. Chairman, that I shall be as succinct as you have indicated that I was at Baden-Baden, but I am not quite so confident myself. I had intended to speak tonight solely on the question of tariffs. But while we were still at sea, we heard the sensational news that the gold standard had been thrown overboard by the United States; so my carefully prepared notes — together with a great many preconceived notions — went overboard, too.

The background of the crisis, however, has not changed, and it may be well at the outset to remind ourselves of the appalling dimensions of the problem with which we are faced.

SCALE OF THE CRISIS

The International Labor Office recently estimated that the number of industrial workers unemployed in the chief nations of the world was from thirty to thirty-five million. Taking dependents into account, this means that there is a population

of some hundred million—not far short of the population of the whole United States—whose bread-winners are standing idle and producing nothing toward their upkeep. Primitive people, they say, cannot count above five, and figures like those I have given you are extremely difficult for anyone to understand, but it may help to illustrate the magnitude of this great unoccupied population, if I present it in this image: that if they were arranged in file, at intervals of a yard, they would stretch twice round the world. If we are to generate the driving force that is needed to grapple with this great problem, we must make the effort to conceive what these figures mean in terms of human suffering, baffled ambition, and resentment resulting from despair.

Let me give one other illustration which appeals more perhaps to a seafaring people than to a nation mainly inhabiting a land continent. There are today thirteen million tons of shipping laid up and rusting in the ports of the world, a figure considerably greater than the total shipping losses incurred during the whole of the Great War. Equally striking figures could be given of the 50 per cent or 66 per cent drop in international trade, of budgets unbalanced through falling revenue and shrinking production.

I will give only one further statistic, which will epitomize for this audience all the rest. The national income of the United States was estimated to amount in 1929 to $85,000,000,000; last year it was estimated at $40,000,000,000—less than half. That is all that was available in the United States last year for wages, salaries, profits, rents, interest, taxes, and all forms of payment. Similar figures could be given for the national income of other countries and in every case it will be found that a large part of the shrinkage is due to the tremendous slump in prices.

If prices remain at their present low level, we are faced with the almost inconceivably difficult task of scaling down all payments, whether wages or fixed charges, to this new low level, for it really is unthinkable that some of us should continue to receive an unchanged amount of a national income so diminished, while others scramble for the rest. Little wonder, therefore, that universally it is recognized that one of the conditions of recovery is a rise of prices.

AUTARCHY OR AN INTERNATIONAL WORLD

Let me hasten to add, however, that this baffling situation is, to my mind, by no means purely a monetary question. The power of the world to produce has never been greater than at present, but a grave disharmony between this power of production and the unsatisfied demand of millions of potential consumers has been brought about by a great variety of causes both political and economic, some of the most important of which were under discussion at Washington this week.

Before we can formulate sound policy on these matters, we must be quite clear what sort of world it is that we are trying to re-create. Many nations have been acting as though they thought it possible to build up their own prosperity regardless of or even in spite of other countries' interests. The doctrine of self-sufficiency, or autarchy, makes a very strong appeal to those who take a cynical view of the possibility of international coöperation; and let us not close our eyes to the fact that the tide has been setting very strongly in this direction in recent years. Without arguing the matter here, I venture to state my opinion that the policy of autarchy must lead to universal impoverishment and a prolonged and far-reaching setback to the whole standard of modern civilization.

But if we are to turn in the opposite direction and seek to rebuild an international world, we must face all the implications of that decision and promote one another's prosperity by mutual accommodation. It is useless to will the end unless we are prepared to will the means.

EFFECTS OF "GOING OFF GOLD"

One of the questions that is in everybody's mind is whether the new situation created by the dramatic events of the past week in this country will help or hinder the process of recovery and the restoration of a world such as I have suggested.

My own first reaction on hearing the news was one of relief that someone had at last had the courage to do something, that the ball had been set rolling, and that great events had been set in train. There seemed to be a sense that we were being moved off a dead center. Further, I realized that the American Administration, backed to an exceptional degree by the public opinion of this country, was evidently determined

to act, by heroic measures, if necessary, to stop the fall of prices and start the movement in an upward direction.

Is it possible by the measures proposed to achieve this? It is perhaps rash for an outsider to talk about these subjects of current controversy, but it does really seem to me that the urgency, the deep-seated nature of the difficulty with which we are faced, is such that we must take our courage in both hands and say exactly what we think.

What can we learn from past experience? Germany and other countries in Europe, for political and economic reasons arising directly or indirectly out of the war, passed through a phase of currency depreciation which it proved impossible to control. The results were in most cases disastrous to the economic and social life of the countries concerned. Perhaps Dr. Luther will have something further to say regarding this episode in modern history. I will only observe that it impressed the world with the extreme difficulty of keeping inflation under control, and inspired all the nations of Europe with a determination that, if possible, they would prevent its recurrence.

It was one of the tenets of early Bolshevist doctrine that you could utterly destroy the social system of a country, if only you tampered sufficiently drastically with the currency, and experience seemed to confirm this.

The British episode, on the other hand, was of a very different kind. In September, 1931, the only recent experience of currencies "off gold" was that of the countries to which I have referred, and with that experience in mind it was natural enough that a great national effort was made to insure that the pound sterling should remain "as good as gold." We failed. The immediate cause of our failure was the withdrawal of foreign balances on a tremendous scale while our foreign assets were frozen and could not be realized. We were in the position in fact of a banker on whom the depositors make a sudden call but whose assets are unrealizable. But that is only part of the story, for behind this capital flight was the fact that during the preceding years our national trading account had been getting more and more out of balance (and if I speak of our trading account, you will, of course, realize that I am talking of the foreign payments of all kinds, that we have to make to foreigners and the payments to be made to the coun-

try concerned, including everything that comes into the current year's trade, for goods or services, interest, and so forth).

For a number of reasons — one of the most important of which was that we were almost the only remaining free-trade country in the world, surrounded by a ring of tariffs which were rising higher and higher—we were buying more than we could sell. So long as capital flowed freely toward Great Britain, that is to say, while we were borrowing the means of paying for our imports, we could carry on; but as soon as the tide of capital stopped flowing, it became imperative to balance our current account, which meant that by some means or other our imports must fall or our exports increase. There was no other possibility.

One way of doing this would have been to do what I have just suggested as the almost incredibly difficult task which would face us today if we were going to cut down all incomes and salaries and every other payment in the country to the present level of wholesale prices. We could, in theory, have attempted by scaling down everything in Great Britain and by universal deflation to increase our exports, but even if it had been politically possible to do it, there was no time. When once the storm had burst in Central Europe, the only alternative was adjustment through a depreciation of the currency.

The pound fell in no sense as the result of internal inflation either actual or anticipated; indeed there was no inflation. We went off gold with a soundly balanced budget. We were driven off gold as the result of external pressure and a lack of balance in the trading account between Great Britain and the rest of the world. When the pound fell, it settled down after a while at a level which has gone a long way toward restoring equilibrium in our balance of payments.

It is, however, hardly necessary to add that though we may be solvent internationally in the sense of paying our way and balancing our account, both our incomes and outgoes are extremely low and we are faced with the problem, as everybody else is faced, of raising the general level.

I will make only two reflections on this story. They are these: First, the level to which the British exchange fell was largely determined by the level of the tariffs and the severity of other restrictions which were existing against British trade.

If you are forced to make your imports and exports balance, which they must do when capital ceases to flow, if you still can't get out enough exports, or if you are still taking too many imports, your currency must fall. If the ring of tariffs which were opposed to our trade had been still higher than they actually were, the depreciation of the pound would have had to be greater; if the tariffs had been less obstructive, the fall in the pound would have been less.

My other comment is, however, that while the fall in the pound had the effect of checking the fall of our exports and restoring the balance of British international trade, it unquestionably introduced a disturbing element into the international economic situation and, by so doing, at first at all events, it increased the general depression for us as well as for others. Though Great Britain clambered a little higher onto the raft, we pushed the raft a little lower in the water. From the world point of view, it caused more deflation. I believe, however, that in the latter half of the period since September, 1931, the comparative stability of the pound and of our economic situation has been and is a helpful influence.

In this connection the reproach is made against Great Britain that we have kept the pound too low and are striving unreasonably to maintain a competitive advantage. But what I have said indicates that, in my opinion at all events, the level to which the pound fell and about which it fluctuated in the past period of twelve months, is a level determined for us by the existing situation of international trade barriers and all the concomitant series of conditions which determine trade. It was, therefore, not a level which we chose but, in a sense, a natural level. Having got there, we believe (certainly I believe), that it was an international benefit for us to prevent exchange from fluctuating up and down whenever speculative influences, waves of capital, or anything else, tended to push the pound up and down, and that the equalization fund was created for a purpose which was an international benefit.

AMERICA'S MOTIVES

But I must return to America. America's recent action is in strong contrast to that of the United Kingdom inasmuch as it is the result, as I understand it, of extreme internal, *not*

external pressure, the internal pressure being the compelling necessity for a lift of prices.

If I am right, and unless there is a flight of capital due to lack of confidence at home, there is no reason for the United States to fear a foreign drain such as that which drove us off gold. A large part of the foreign balances in America has been repaid, while America's balances abroad are large. Though in your case as in ours both imports and exports are low, your international payments as shown by the figures published this morning in the newspapers, are reasonably balanced; indeed, if account is taken merely of your current trading position, there is no reason why the mere act of suspending gold payments abroad should cause any fall at all in the exchange value of the dollar. The currency of a country that is off gold is free to fluctuate, but this is not in itself a reason why its movement should be downward.

America has not abandoned gold, however, through any distrust of the gold standard, but with the definite idea of raising the internal price level.

It would be out of place for me to attempt to discuss the specific methods or merits of inflation—or perhaps I should use the word " reflation "—which are under discussion today in this country, but I will venture to state one or two propositions which seem to me to have a bearing on the situation from the international point of view.

First, the United States plays so great a rôle in the commodity markets of the world that an upward movement here should help more than anything else to start the ball rolling. I think that everyone who has considered the international monetary situation has been looking for and hoping to see a movement of prices in this country. We feel in Great Britain, for example, that whatever steps we might have taken to urge or stimulate a movement in Great Britain, could easily be neutralized, would almost certainly be neutralized, by anything like a contrary or adverse movement in this country.

But, to secure a higher level of prices is not so simple as it sounds. Experience has shown that merely to create the means of payment whether in the form of bank money or of currency has no magical effect. The present trouble is not that there is insufficient currency or credit in existence, but

that it does not circulate. There are today in the hands of the public of this country, in circulation, far larger quantities of currency than in any period of the boom. Clearly, if the currency circulates and the credit circulates, there is enough currency in America to carry a much higher level of prices than exists today. But, the level will rise only if somebody spends. A revival of spending either by private individuals or by the government may start a general upward movement; but unless there is general confidence and unless conditions are ripe for a uniform improvement all along the line, experience has shown (and effort after effort in recent years has illustrated this) that one act of spending may merely give rise to a momentary lift which will quickly fade away, while the currency and the bank credit return to the banks and lie idle once more.

This uncertainty as to the effect of inflation exists whether it is achieved by expanding bank credit, by printing paper money, or even by devaluing the dollar in terms of gold. True, it is so often presumed that if the gold content of the dollar were reduced by half, prices would at once be doubled. I believe that to be an illusion. Such a measure would encounter precisely the same difficulties as the other methods of inflation to which I have referred in particular, the difficulty of getting a uniform general upward movement of prices. You have got to get all incomes marching forward more or less *pari passu*.

But there is a special problem of getting an upward movement which must be borne in mind, for if there is to be anything like a uniform advance of prices in the United States, there must be recovery not merely of domestic purchases but of foreign buying, i. e., the international trade level must rise; for clearly you cannot secure and maintain a higher price for such commodities as cotton, wheat or copper if you are getting an expansion only in the home market.

Whether an expansion of foreign buying will happen or not depends to some extent on the effect of inflation in America on the foreign exchanges. What will that effect be? If a rise of prices were to take place in the United States unaccompanied by any price movement abroad, it is to be presumed that ultimately, in the long run, there would be a fall of the

dollar exchange to something like an equivalent extent, and when things had settled down, there would be no advantage or disadvantage to the United States in international competition.

But we all know that in the meantime, while things were adjusting themselves, considerable uncertainty would prevail in the exchange market, while a flight of capital, which might quite readily occur, would tend to drive the dollar below its natural level. Both these factors would have a deflationary effect abroad, similar to that caused by the fall of the pound, and this would increase the international depression. This, in turn, would spread back to the United States. There is real danger that efforts to stimulate prices internally may be neutralized unless very great care is taken to avoid harmful repercussions on the general state of the world.

The moral is that while everyone agrees that efforts must be made as far as government or bank policy can do it, to foster an upward movement of prices, we can be sure of gaining the maximum advantage only if the movement is international and all the different countries endeavor as far as possible to keep in step with one another. Further, the upward movement must be orderly and not violent, because we may be practically certain that if violent movements occur, the harmful reactions which are just around the corner, as it were, will more than neutralize the beneficial effects.

But, if we must look to general coöperation among the nations to secure higher prices, why is it that Great Britain hesitates to agree forthwith to stabilize the pound on a suitable parity and join in an effort to produce something like international reflation? The answer to that question is contained in the communiqué issued on Wednesday in which it was indicated that there must be simultaneous action in commercial as well as in monetary policy.

The mere stabilizing of the exchanges, even if accompanied by an upward movement of prices, would not suffice to insure an international system which we could be certain of maintaining. The economic nationalism of the last decade has created such changes and disturbances in the normal course of trade that unless we restore a much greater freedom in the movement of goods and enable trade to flow in its normal

channels, we cannot be certain that a new international financial system would be any more enduring than that which we set up and maintained between 1924 and 1930.

Autarchy is incompatible with an international monetary system. The mistake that we made in 1924 was to endeavor to set up an international monetary system without first making sure that the economic background was right, and we in Great Britain feel that that mistake must not be repeated.

TARIFFS

The experience of the depression has gone a long way toward driving home the lesson that there is no country in the world which can insure its own prosperity while the rest of the world is depressed; but there are still many illusions on the question of tariffs and their effect. It is still, for example, widely believed that a lowering of tariffs would involve a lowering of the standard of living. It is, indeed, obvious that, in practice, tariffs have not saved any country from a disastrous fall in the earning power of its people, for in the depression difficulties have overwhelmed both protectionist and low-tariff countries alike; but it is perhaps worth while to point out that in Europe's experience countries that have the highest standard of living are precisely those countries which have the lowest tariffs, while those with high tariffs have the poorest standard of living. The United States shares with Brazil, Spain, Hungary and Poland, the distinction of having the highest tariffs in the world. England and Holland are still among those countries that have the lowest.

Again, both in America and the British Dominions the idea is prevalent that a tariff which balances the cost of production at home and abroad has some scientific justification and puts competition on an even keel. But surely this is the most fatal of delusions. Foreign trade takes place because country A can produce goods more cheaply than country B, and obtain in exchange something which country B can produce more cheaply than country A. If you penalize trade by a tax precisely equivalent to this difference in cost, you abolish the whole benefit that would otherwise be gained by foreign trade, and, if you were to carry the policy to its logical conclusion (fortunately no country has ever done so) it would bring all

international trade to an end. This criticism is not merely a theoretical argument but is confirmed by practice, for this principle has been most vigorously applied by precisely those countries which have, as I said just now, the highest tariffs in the world and have most seriously impeded the flow of trade.

In this and many other respects a change of sentiment must come about if there is to be a change in the policy which has produced the present economic blockade. I would only add to this negative criticism one positive doctrine which is peculiarly pertinent at the present moment and which I think is now widely realized; it is that creditor countries must frame their commercial policy in such a way as to accept a position in regard to international trade in which they have a surplus of imports. Unless creditor countries accept this position, debtors must default, with all the harmful results to international credit that default involves.

Moreover, I do not believe that this conclusion regarding the need for creditor countries to accept an import surplus can be escaped by assuming that for a long period of time, let us say for the next decade, the situation will be taken care of by the resumption of lending on a large scale. German experience has shown in a striking object lesson that the method of continuous lending without the possibility of repayment by means of increased exports merely leads to the piling up of a mountain of foreign debt which is bound sooner or later to come tumbling down.

This German experience means, as I believe, that investors before investing abroad again will need to be satisfied that the countries concerned can maintain a positive balance of trade so that they can pay their debts by legitimate means.

There has been talk of a tariff truce in the last few days. Clearly something of that kind is obviously needed during the Conference; but it is only a suspension while the statesmen talk; for it is worth emphasizing that if we are to do anything in regard to trade, it is usless to stabilize the *status quo*. It is the *status quo* which has brought us into this situation. It is essential to secure much freer movement of goods than we have been enjoying in recent years. For unless there is a substantial reduction of the barriers to international trade, it will be impossible to restore the equilibrium of the world.

I said just now that if we will the end, we must will the means. That is going to prove a hard saying, for the questions we have to answer are precisely those I have been posing. Are creditor countries prepared to accept a situation where they will have an import surplus? Are we content to lower trade barriers to such an extent that we shall, in fact, become (and this perhaps applies more to Europe than to America) more interdependent? Do we really believe that we can safely move along those lines, or not?

I need hardly add that if we are to do so, political conditions must also be of such a kind that we can confidently count on peace at all events between the Western and industrialized countries of the world. These political conditions include disarmament and all that it implies. Nevertheless, we must realize that political appeasement is the first item in the time-table, for until it is achieved, the nations will not move along the road to greater interdependence.

WAR DEBTS

Before I sit down, I will refer very briefly to a subject which I have so far left on one side, namely the question of the War Debts. We cannot envisage the future adjustment of international trade without considering this matter, but, as it is still under official discussion both in Washington and London, I do not propose to discuss how it should be settled.

I will, however, venture two observations. The first is that when America is considering the future of her trading account (and I have urged that you should think of the situation in terms of actuality), the surplus of imports over exports required to take care of the normal private inflow of interest owing to American citizens will inevitably have to be increased by whatever amount may be paid in respect of the War Debts, while the exports of England and of France must be similarly increased.

The second is that this necessity cannot be avoided by arranging for payments in gold or even in silver, for England, at all events, produces neither of these metals and can acquire them only by a trading surplus. Nor does the increase in our holdings during the last few months refute this contention from the point of view of the immediate future. The way

our gold has been seen to be piling up in recent weeks seems to support the view that the June payment can be taken care of and there is almost enough in the till for December. But this is a superficial view; for our trading position, though nearly balanced, is still in deficit. This means that the gold which is flowing to England, if our figures are right, has not been earned in the way of trade, but has come to Great Britain as a result of an inflow of capital which for a number of reasons has recently been taking place. If and when that capital is withdrawn, the gold will flow out again.

If, in the meantime, we use the gold to pay the War Debt, the War Debt payment will not depress the pound at once, but we shall only have postponed the evil day, for when we are called upon to pay the private deposits which the gold represents, the pound will fall if our gold and foreign exchange holdings have been used up. That inflow is the counterpart of a capital movement; it is not an indication that we are earning a surplus which can be handed over to pay the debt.

There is no escape in the long run from the economic necessity which dictates that in the end international debts can only be paid from a trading surplus.

Mr. Chairman, I have touched on controversial questions; I hope I have not been indiscreet.

Sixteen years ago in April, a British mission, of which I was a member, quickly followed by a mission from France, set sail for the United States to organize coöperation for war. This April a series of missions has also crossed the sea. On this occasion there is no conflict of purpose between the nations nor are they divided into rival camps. They have come with one common aim, the aim of organizing a strenuous campaign against the forces of world depression and despair.

In physical warfare no army could hope to succeed if each division planned its movements independently and advanced and retired whenever it thought fit. The same is true of the present fight on which we are engaged. The secrets of success are the coördinating of action and the allotting to each of his appropriate task. The peoples must understand that, if we pursue what appear to be our individual interests at the expense of other countries, our self-seeking will most certainly recoil on our own heads. If we don't hang together, we shall

hang separately. But if our statesmen have courage, as your President clearly has courage, and also have the breadth of vision to grapple with the situation as a world-wide problem, there is no reason why we should not organize an advance along the whole front at once which will enable us to break through to prosperity.

Remarks by the Chairman

CHAIRMAN REYNOLDS: We have another guest this evening who has just arrived from overseas, the representative of Germany. He has become known in his own country as the man who can do everything. He has been a mayor, several times a cabinet minister, twice Chancellor of the Reich, and once President of the Reichsbank. I happen to recall no Ambassador who has come to us in recent years with broader experience.

His first responsibility as a cabinet officer was in charge of the organization of the national food supply at the time that the great German cities were on the verge of starvation as a result of the extreme phases of currency inflation. It is said that whenever his associates in the cabinet asked him about the food situation, he countered with embarrassing interrogations about the currency situation. His associates became so annoyed at this persistent and uncompromising attitude that one day on about five minutes' notice they catapulted him into the job of Finance Minister and told him to do it himself.

As the Minister of Finance he filled a conspicuous rôle in the stabilization of the currency, and that led quite naturally to his becoming the President of the Reichsbank.

Some of you whose acquaintance with mayors is limited (laughter) may think that being a mayor is a poor school for diplomacy; all of you who are acquainted with bankers will be positive that banking is a poor school for diplomacy; but in his two terms as Chancellor of his country, our guest had the advantage of a good school of diplomacy and a great mentor in Dr. Stresemann. It was during that period that the foreign offices of Europe were engaged in framing the Treaty of Locarno, and our guest had much to do with that undertaking which has since resulted in inestimable contributions to the stability of Europe.

I have great pleasure in presenting Dr. Hans Luther.

INTERNATIONAL COÖPERATION

DR. HANS LUTHER
German Ambassador to the United States
Former Chancellor of the Reich and Former President of the Reichsbank

TO ADDRESS this gathering of the Academy of Political Science is both an honor and a pleasure to me. I know from my activity at home in Germany that the importance of the Academy of Political Science is nowise limited to the boundaries of America. The number of prominent personalities in the society, the weighty subjects that distinguish its meetings, and the abundance of general intellectual, and especially political, impulses launched by it, gave the organization long ago a fame that is world-wide. I thank you most sincerely, for this reason, for affording me the opportunity, now that I have entered upon the duties of Ambassador of the German Reich at Washington, to discuss before you a key theme such as " International Coöperation ".

Before I develop my personal views, let me, please, preface my exposé by assuring you of something. No government in the world is more ready for international coöperation than is the German. The German Government is surpassed by no other in its eagerness for international coöperation.

I realize that this assurance may meet with some skepticism. Stating the case with moderation, a flood of criticism has in recent weeks been poured over Germany in foreign countries. But I am fully convinced that in a group like yours, thoroughly averse to slogans, disfiguring of the truth is clearly perceived, and the distinction readily drawn between the policy and volition of a government and the occasional effervescence of the youthful vigor and enthusiasm which have ever accompanied revolutions.

For this fact has to be taken into account: A revolution has occurred in Germany—bloodless and even within the forms prescribed in the pre-revolutionary Constitution, and, therefore, in accordance with them, something which no other revolution heretofore has accomplished. The present Government

of the Reich was given special legislative powers by a new Reichstag. This Reichstag conferred these special powers by the two-thirds majority necessary for changing the Constitution. And this Reichstag was elected by voters who, it may be said, sensed that this would be the issue. The election of this Reichstag resulted from the application of a general, equal electoral franchise and of proportional representation.

Now concerning the meaning and aim of this revolution. It is the national rebirth of a people; it is, according to the belief of the majority of the German people, the final fulfillment of a thousand-year-old wish which not even the Bismarckian Empire had been able to fulfill completely. The other great peoples have long since completed the process of becoming a nation.

It is only another aspect of the national renaissance of Germany that she directed the power of her national will against certain anational or anti-national movements which only through a rather inexact but universal way of expression are called international. These anational or anti-national movements threatened to disrupt the body of the German nation. Internationalism is something positive, while what I mean by anationalism is purely negative. Thus Germany has defended herself against such anational communism, and in doing so has rendered, I think, a service to the future of the whole world. The highest law for Germany both as a state and as a nation now is to secure and solidify the inner stability of her state and social organism. The German people, however, will never cease to be the bearer and augmenter of the intellectual and cultural values of her own past, of which she is proud. Grown together into a nation, the Germans are still the old German people.

The process of the German revolution had been going on long in the German people, assuming also the form of reaction to administrative and social ailments and disturbances of the social equilibrium during the post-war years. I am sure to find in this country, which justifiably has been judged to be the refuge of liberty, understanding of the necessity of meeting disturbances of the social equilibrium with wise government and popular policies, especially when these disturbances are as large as they were in Germany.

If to some of you, ladies and gentlemen, any of the happenings in Germany seem too rapid, or too evident, or exaggerated, pray do not forget that these developments took place in Germany under the terrible and unnatural pressure of the situation created by the Treaty of Versailles. This excessive pressure curtailed the sphere of life of the German people to such a degree that those who were not in the possession of positions that guaranteed spiritual and material existence passed into a state of material and spiritual distress in which self-preservation and self-maintenance by extraordinary means were forced upon the German people.

But what is now the attitude in questions of foreign policy of the new German state? What is its disposition toward international coöperation? How will it act? In foreign countries frequently the German Government is not considered a national government, as is its own rating of itself, but a nationalist government, that is, one which in an exaggerated measure keeps its eyes solely on the political, economic and other interests of the nation. Such a statement does the German Government an injustice. In his declaration on the Government's program before the Reichstag on March 23, Chancellor Hitler noted expressly: "The national government is ready to extend its hand for a sincere understanding to every people that is willing once and for all to terminate as a matter of principle the sorry past"; and again: "The German people want to live in peace with the world"; and further on: "Ten years of sincere peace will do more for the welfare of all nations than thirty years of running amuck by the victors and the conquered nations". All declarations of the German Government run in the same direction, and its applied policies follow the same course. Chancellor Hitler only recently, at a meeting of the National Socialist Labor Party, professed these concepts of foreign policy and declared that Germany's policy was one of peace, which Germany needs and which she wishes to maintain—"a peace with equality". The attitude of the German Government is thus made clear.

But what in principle, and generally, is the relation of the national to the international? That, indeed, is the core of my subject. National sentiment and international coöperation are not antithetical; the national is indeed necessary to the inter-

national. No great, liberating, people-uniting, and in the highest order productive, international idea is possible unless it has for its supporting base a free nation, conscious of and caring for its national individuality.

He who would promote internationalism without a national foundation is as foolish as he who believes that to develop the state the family has to be destroyed. Internationalism not reared on nationalism is like a tree without roots. Such internationalism would be anationalism, it would be a mere fiction, and upon fictions a political reality can never be built; on the contrary it is indeed dangerous to try to do so.

Let us do without similes and consider the actual reality. Where are to be found any forces other than state-national forces on which international solutions could be rested? I see none on the entire globe. In the same way that sound private economic relations between members of different nations are necessary, and that individual energy in private business is necessary in the affairs of mankind, so without the state-action of nations a new and sound internationalism cannot be constructed.

A solution of world problems — an international coöperation—is possible only when based on nations. This connotes nations with equal rights. The genuine equality of nations must again become the source of international thought and action. Where there is no equality, one nation will not develop full confidence in the honesty and reliability of another. Successes in a partial domain will remain partial successes. The vital organs of a whole, such as is formed by the community of nations, can be deprived of their normal blood circulation politically as little as economically without the whole body falling sick and staying so.

To show in what respects Germany is not the equal of other nations entails going into many details and examining the general tendency of the Treaty of Versailles. Allow me to remind you of the disarmament promises which, despite a great deal of good will in other countries, are yet unfulfilled. The position of Germany, Germany's struggle for equality in armament, with its aim at sweeping and general limitation of armament, is well known.

Besides the task of disarmament, at which the Disarmament

Conference has now labored for fifteen months, general attention is now directed with the greatest devotion to the tasks of the Economic Conference, which, by means of international coöperation, is to ease the world-wide distress of the hour. I will refrain from asserting, retrospectively, how great a share of this distress was caused all peoples by the Treaty of Versailles and the subsequent agreements. Now it behooves us to help in the future. Germany will participate in the Economic Conference with the strongest will for international coöperation imaginable. Germany welcomed in the warmest manner the decision of your President, resulting from his profound statesmanlike judgment, to have preliminary conversations on the World Economic Conference in Washington, so that in this manner the way would be paved for the understanding which would make the realization of this great labor certain instead of problematical.

Not a few countries had long been surrounded by high tariff walls when Germany, only a few short years ago, decided hesitatingly to follow this example. But there is also a difference between prohibitive tariff walls and those which merely aim at an equitable equalization of advantages: To give an instance, a southerly sun bestows upon a soil more than fertile, certain advantages which are denied to the scanty soil of another country, despite the greatest industry of its population. To equalize such advantages is the sole aim of a few agrarian emergency measures taken by Germany in recent times; and this view could hardly be characterized as economically unjustified, internationally destructive, or vulnerable from the angle of political morality by any unprejudiced point of view. These customs measures, though late, did nevertheless raise some dust, but they need not prevent Germany's being a good buyer in the future in the American market. For many years now almost twice the number of millions have wandered to the United States for imports into Germany as have moved in the opposite direction for exports from Germany to the United States. Germany must draw attention to this. But it does not do this with the feeling that it is proper on principle to buy from a country only as much as it will buy from you. World economy would be a wretched thing, condemned to never-ending ailment, if the tendency persisted of checking up with

the pencil the trade between two countries by such a system of control, instead of, as once upon a time, putting at the disposal of our fellow nations commodities from the entire world with the consciousness that the finally necessary economic balance would not be struck by only two states but within the whole family of nations.

You as a creditor nation know certainly that paying debts due the United States is possible only in the form of dollar remittances or the importing of goods. When a debtor country like Germany wants to open a market for the export of commodities to foreign countries, no artificially devised prerequisite for a function in world economy within the scope of international coöperation is in question but, I might say, an imperturbable fact born of the simplest logic. It is precisely truths of this sort which in recent times have often been buried by landslides. Let us hope that little by little they will rise again from the débris of muddled theory and inorganic thinking.

Regarding the other questions which must be solved by the World Economic Conference or in connection with it, I will limit myself to a mere hint. Among them is found the compelling necessity for the reëstablishment of firm value relations between the different currencies which will make the merchant's computation possible. This subject is so actual at present, also in the United States, ladies and gentlemen, that the mere touching upon it by me unleashes the whole complex of thoughts connected with it.

Generally speaking, I would like to express my conviction in regard to the World Economic Conference that without sacrifices by each participant it will hardly work. Should the Conference reach a global result, however, it will be shown that the sacrifices demanded of everybody are only seeming sacrifices because the gain by all in a revived commodity and credit traffic between the nations will represent a much greater advantage than the total of sacrifices made will be a loss.

To hold that times of comparative poverty are the most suitable for the spiritual and cultural progress of peoples is a high-minded idealism. A grain of truth is surely hidden therein. At the same time I am of the opinion that in our world today a certain average prosperity of peoples is neces-

sary to progress. There is hardly another country that has developed this to the degree that yours has. The general living standard in the United States is recognizedly high, when we overlook the present confusion.

Still more important for international coöperation than thriving economy and flourishing culture is mankind's far more precious and all-embracing gift, the preservation of peace. It is especially Germany, which suffered so much from the consequences of the war, and which is now conscious of the geographic handicaps of its situation, that longs for this ardently. What Chancellor Hitler said on this subject I have already quoted. Please, do not believe the gossip that in Central Europe lives a people feeling anything else but the desire for a just peace with all the world, as the best basis for international coöperation.

I would like to close, so as not to make an unreasonable demand upon your time. Since I deemed it proper to express at the outset my gratitude to your highly esteemed society for this invitation, I would like to conclude by expressing the fact that it is a great satisfaction to me to have been entrusted with the post of ambassador at Washington. If international coöperation, as I have attempted to sketch it here, be the prerequisite to world recovery, then I dare to express the hope that I shall be successful in developing still further the international coöperation between the United States and Germany, which in many respects has long been in existence. International coöperation cannot be furthered in a vacuum, but only by practical individual work between state and state, people and people, man and man.

Allow me to close with the confession of faith and confidence that international coöperation will be a blessing for both countries: America and Germany.